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What You Need to Know About the Department of Labor Fiduciary Rule
The BAM ALLIANCE

On April 6, the Department of Labor (DOL) published the final version of the conflict of interest rule it proposed in April 2015. The new regulations require those who advise on retirement savings plans to adhere to the "fiduciary standard" that BAM ALLIANCE firms have long held dear. Because we've always been fiduciaries, these regulations won't affect our relationship with our clients, but it's a big win for individuals saving for retirement through their employer-sponsored retirement plans or through Individual Retirement Accounts (IRAs).

The new regulation should provide extra transparency and peace of mind in a relationship retirement savers usually don't have control over (who their employer chooses to manage their retirement plan). We hope to see the rule result in better investments offered (and better advice given) to retirement plan participants across the country.

We anticipate investors will be curious about what the ruling means to them, so we have answered a few big questions below:

Why was this regulation proposed?

The DOL fiduciary rule was proposed to better protect people who are saving for retirement as a result of changes in the investment environment. Over the last 40 years, the availability and importance of self-managed investments, such as IRAs and participant-directed retirement plans, has increased. At the same time, the number and complexity of investment products in the marketplace has grown, as well as the creative and sometimes questionable way they are packaged and sold.

Due to this changing landscape, the DOL has issued new conflict of interest rules that apply to retirement plan advisors and IRAs. The DOL believes that requiring all advisors who work with retirement plans to operate under a fiduciary standard will prevent advisor conflicts of interest estimated to lower participants' returns by 1 percent a year and result in approximately $17 billion lost annually.

Why was there so much opposition to this regulation?

Broker-dealers are generally only required to meet the suitability standard in making investment recommendations rather than operating under the fiduciary standard. The suitability standard required broker-dealers only to recommend a product "suitable" to meet clients' goals; the fiduciary standard requires an advisor to act in a client's best interest. The DOL rule changes will require broker-dealers to act as fiduciaries for retirement plan and IRA purposes, affecting the compensation arrangements available to them.

What's changed? What's different from before?

The rule requires those advisors who work with retirement plans to do only what's in the best interest of their clients and to disclose any conflicts of interest. Recommendations that previously would not have resulted in a prohibited transaction may now run afoul of the rules that bar financial conflicts of interest. In its final form, the rule defines who is considered a fiduciary investment advisor. Broker-dealers, insurance agents and others that act as investment advice fiduciaries can continue to receive a variety of common forms of compensation (such as commissions) as long as they are willing to adhere to standards aimed at ensuring that their advice is impartial and in the best interest of their clients.

Who will this rule affect? How?

For clients or participants in 401(k) plans, the new regulation should provide extra transparency and peace of mind in a relationship retirement savers usually don't have control over (who their employer chooses to manage their retirement plan). We hope to see the rule result in better investments offered (and better advice given) to retirement plan participants.

On the advisor side, the main impact falls on broker-dealers. Broker-dealers frequently receive compensation that varies based on the investment options they recommend, and they will now have to comply with prohibited transaction rules designed around a best-interest fiduciary standard.

Registered Investment Advisors (RIAs) such as our firm, who already are considered retirement plan fiduciaries, do not receive compensation that varies by investment, so the impact will be minimal.

When will the new regulation take effect?

Compliance with the rule will be required beginning in April 2017 (one year after the final rule is published in the Federal Register). Exemptions will be available at that time with a "phased" implementation approach designed to give financial institutions and advisors time to prepare.