Economic and Market Insights

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By Bruce Talen, J.D., CFA
Senior Vice President, Senior Trust Counsel
The Commerce Trust Company

How do I know I've been affected by new government rules for retirement savings plans?

The Department of Labor rolled out a long-anticipated new rule on April 6 aimed at transforming the way financial advisors are allowed to make investment recommendations for 401(k) and Individual Retirement Accounts (IRAs). This was the first major update to the regulations governing retirement advice since 1975. Even though investors now hold more than $12 trillion in IRA and 401(k) plans, the new rule affecting those plans has many scratching their heads as to what just changed. Senior Trust Counsel Bruce Talen, J.D., CFA, breaks it all down for readers in a quick Q&A.

Q. The Department of Labor recently announced changes affecting my retirement saving plans. What do I really need to know?

A. Government regulations were changed so that the investment providers you use for your retirement accounts are now required by law to recommend products and services that match your particular needs and goals when they propose stocks, bonds, mutual funds, etc., for your IRA or 401(k).

Q. How will I know if they are doing a better job at recommending products and services?

A. The rule previously allowed some investment providers to propose investments that would have been considered appropriate, or "suitable," for your needs -- but at the same time these advisors might have made their recommendations influenced by commissions from specific investment companies. The new regulations address this conflict of interest and could help lower your investment costs.

Q. How much was this costing me under the old rules?

A. Some estimates say that the annual returns you could have received on retirement savings may have been decreased by as much as one full percentage point. Depending on how it's computed, that could mean as much as a $51,770 difference on an account with a $5,000 contribution each year for 30 years.* On an aggregate basis, some sources have estimated that retirement advice from conflicted financial advisors cost American middle-class families about $17 billion per year.

Q. Going forward, where am I likely to see any cost benefit of the new rules?

A. One likely scenario might be where you roll over from an old workplace plan to an IRA. Low-cost, low-fee choices will be favored now because your advisor will have to treat recommendations as any other fiduciary advisor might for a 401(k) plan. But ask your advisor for performance ratings on any new proposed investment options so you are assured you are not getting an inferior product in exchange. Remember, an advisor will be required to document why any advice he or she offers you on transferring funds from a 401(k) to an IRA is in your best interest.

Q. What do I have to do to make sure my investment advisors are following the new law?

A. You don't have to take any specific action. The new rules mandating that advisors only recommend products and services that match clients' needs and goals take effect starting April 2017. Expect more disclosure paperwork -- your broker or advisor will have to document any proposal made to you, confirming the advice is right for your investment situation and not influenced by any choices based on commissions, unless disclosed.

Q: What happens if my advisor isn't living up to his or her fiduciary duty?

A: The new rule allows investors to take legal action alleging that an advisor has failed to act as a fiduciary. Industry observers believe the new rule likely will make it easier for investors to successfully bring a claim.

Next steps

- Ask your current advisor if any of your current holdings rebate a commission back to his or her firm.

- Ask your advisor if he or she will be recommending any new investment proposals based under the new rule for your retirement account.
- If lower-cost substitutes are presented as investment options, ask the advisor how ratings for the proposed option compare to those of the previous investment.

**Commerce calculated portfolio values at various returns for an account with a $5,000 contribution each year for 30 years. For example, if the return each year is 5%, the ending portfolio value would be $51,770 higher than for a similar account that only earned 4% per year.*