

Obama Backs New Rules for Brokers on Retirement Accounts

Proposal Requires Advisers to Put Clients' Interests First

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Sen. Elizabeth Warren applauds as President Obama arrives to speak at an AARP event Monday. He endorsed stricter standards for advisers on retirement-account investments.

WASHINGTON—President Barack Obama endorsed stricter standards for brokers and others who recommend retirement-account investments, backing new rules requiring advisers to put their clients' interests ahead of personal gain.

The proposed rules, drafted by the Labor Department and endorsed by Mr. Obama on Monday, are expected to chip away at lucrative sources of income for brokers. Wall Street groups have been fighting moves to ratchet up industry standards, maintaining they already operate under strict rules and

warning that the new standards could remove an incentive for brokers to serve accounts with smaller balances.

Mr. Obama, in backing a so-called fiduciary standard for financial advisers, is wading into an area of widespread confusion about how financial professionals are paid. At present, brokers' recommendations for 401(k) plans and other retirement accounts generally must be "suitable" for an investor. But they are not required to be in an investors' best interest, a standard known as fiduciary. This results in a weaker standard that critics say permits high fees that eat into investors' returns.

While the text of the proposal won't be made public for months, it is already generating bipartisan concern among U.S. lawmakers. Sen. Jon Tester (D., Mont.) said in an interview last week that he was worried the proposal would have the effect of reducing options for small savers and could conflict with a similar effort now under way at the Securities and Exchange Commission, creating administrative headaches.

“If this takes away options and the rules are not harmonized [with SEC] it will be a disaster,” Mr. Tester said. Given the huge savings gap America faces, “we ought to be increasing options, not limiting them,” he said.

The trick will be maintaining the commission-based transactions that are a feature of the current market without creating a tangle of confusing exceptions, Mr. Tester said. If that can be done, he said, then the industry can continue serving small savers effectively.

While the new rules don’t necessarily prohibit commissions, they are targeted at concerns that in some cases commissions may be unduly large. The White House says the Labor Department proposal will define fiduciary in a way that doesn’t preclude getting paid through commissions.

Senate Finance Committee Chairman Orrin Hatch (R., Utah) criticized the administration for moving forward with the rules “after little to no consultation with congressional tax leaders.” He said the Treasury Department, which enforces the tax code, should draft any new rules for individual retirement accounts, since they are tax-preferred savings accounts.

The new rules would affect advisers making recommendations to individuals looking to roll over 401(k) accounts into IRAs upon leaving a job or retiring. Rollovers are among the single biggest investment decisions many workers will make, involving a nest egg they have been accumulating for decades. In 2013, about \$353 billion was rolled from workplace defined-contribution plans to IRAs, according to an estimate by research firm Cerulli Associates. The Boston firm expects rollovers to continue growing steadily, to about \$546 billion in 2019.

Wall Street groups warn the rules could crimp investors’ choices by limiting the range of retirement products brokers can pitch, or making advice too costly for many investors.

Advisers operating to a fiduciary standard generally must spend more time talking with clients to ascertain the best advice to give them, said Brian Hamburger, whose Englewood, N.J.-based MarketCounsel helps advisory firms comply with their legal requirements. As a result, most such advisers charge a fee equal to a percentage of the investor’s assets; they will typically have a minimum account size to make sure that they get paid enough to cover the costs.

Dean Harman, managing director of Harman Wealth Management in the Woodlands, Texas, said he does about 90% of his work as a fiduciary but also serves some small investors, such as the young-adult children of his clients, by charging commissions. Mr. Harman, who is also a member of the board of the Financial Services Institute, said that if he couldn’t do that, “Anyone with less than \$50,000 we just wouldn’t be able to serve.”

President Obama on Monday played down concerns about high costs or lost services, saying “a lot” of financial advisers support tighter standards “but there are also some special interests that are going to fight it with everything they’ve got.”

“If your business model rests on taking advantage, bilking hardworking Americans out of their retirement money, then you shouldn’t be in business,” Mr. Obama said Monday, speaking at AARP event in Washington. “Outdated regulations, legal loopholes, fine print, all that stuff today makes it harder for savers to know who they can trust.”

The president’s push reflects a turning point in an effort to advance the new rules, after a 2010 proposal collapsed amid industry pushback. The White House Office of Management and Budget will now review the proposed rules before releasing them for public comment. The White House office would need to sign off on the rules again before they are finalized.

Collectively, more than 40 million American families have savings of more than \$7 trillion in IRAs, the White House said in a report released Monday. In addition, more than 75 million families have an employer-based retirement plan, own an IRA, or both.

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