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What You Need to Know About the Fiduciary Rule

A quick look at the changes coming for retirement accounts.

Provided by Robert W. Bruner

Rules are changing concerning investment professionals and retirement accounts. In the eyes of many, the change is good.

The “fiduciary rule” is going into effect in June. This Department of Labor rule stipulates that any financial industry professional who makes investment recommendations to participants in qualified retirement plans in exchange for compensation will be considered a fiduciary.

What does all that mean? It means that if you have an IRA, a 401(k), a 403(b), or any other type of qualified retirement plan account, any financial professional advising you must automatically assume a fiduciary duty. He or she must always act in your best interest.¹

Why is this rule being introduced and fully implemented by January 1, 2018? The DoL sees it as a way to limit the potential for conflicts of interest entering relationships between financial professionals and investors – particularly, conflicts of interest that could relate to a possible commission from an investment transaction.

Decades ago, financial services industry professionals were paid wholly or primarily through trading commissions or sales commissions. Today, things are different. Fee-based financial and retirement planning practices are now numerous. There are even some fee-only financial services businesses.

The whole industry has been shifting toward a new compensation model, in which financial services industry professionals earn some (or all) of their income from fees. The new DoL fiduciary rule may further promote this trend.

The new DoL fiduciary rule says that if you have money in an IRA, and you want investment advice, investment evaluations, or investment management recommendations, one of the following two agreements must be in place by January 1, 2018:

*A written agreement to a fee-based advisory relationship with a financial professional.

*A Best Interest Contract (BIC), which states that you and the broker-dealer firm facilitating the buying and selling of securities held within your account have agreed to a commission-based fee structure related to such transactions. (Financial professionals who receive primarily commissions rather than fees commit to acting as a fiduciary for their clients through this contract.) The BIC directs you to a disclosure website where the costs of the advice offered and the potential conflicts of interest in the advisory relationship are noted.^{2,3}

Participants in 401(k)s, 403(b)s, and other types of employer-sponsored retirement plans will not be presented with contracts, but they will be made aware of disclosures that reference the potential for conflicts of interest.²

While many financial industry professionals already work by a suitability standard (which, it could be argued, approximates a fiduciary standard), the DoL is encouraging widespread adoption of the fiduciary standard with this new rule.

The new fiduciary rule will not impact the value of your IRA or retirement plan account. It may impact the financial professional you have a relationship with, however. Your representative may already have a fee-based (or fee-only) compensation structure in place; he or she may inform you of a transition to a fee-based business model; or, he or she may tell you that commissions will still be part of his or her compensation.

The fiduciary rule has come to the forefront of the discussion about retirement planning and retirement savings. In the eyes of many, its adoption and implementation is a good thing.

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Citations.

1 - tinyurl.com/ybkb7hhc [5/23/17]

2 - dol.gov/ebsa/faqs/faq-conflict-of-interest.html [6/6/17]

3 - wealthmanagement.com/regulation-compliance/final-dol-fiduciary-rules-glance [4/6/16]