

PERSONAL FINANCE APRIL 27, 2016 12:01 PM

Your financial planner: Will the fiduciary rule protect your financial future?

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When it comes to an advisor managing the money you are saving and investing for retirement, the management and recommendations should be transparent and made with your best interest in mind.

The Department of Labor believed this strongly enough to spend years working on a rule that was finally issued on April 6, 2016.

The rule states that any advisor managing a retirement plan or its participants is a fiduciary, legally bound to make decisions in the best interest of their clients. This rule also applies to advisors who recommend consumers move their investments from a retirement plan to an Individual Retirement Account (IRA).

Hidden fees were likely more common than retirement investors initially thought and because many retirement plans are sold by brokers and insurance agents who were not previously held to a fiduciary standard, there were no regulations or standards forcing them to make fees and commissions clear to participants.

In fact, these brokers and agents were only held to a “suitability” standard, meaning their recommendations needed to only be suitable for what the client needed at the time of the recommendation (good enough to get the job done) but not necessarily be low cost, low-commission products or produce the highest returns.

They were in the business of sales, not the business of advice.

According to the Fact Sheet (<https://www.whitehouse.gov/the-press-office/2016/04/06/fact-sheet-middle-class-economics-strengthening-retirement-security>) released by The White House on April 6, 2016, “these conflicts of interest in retirement advice cost American’s families an estimated \$17 billion a year.”

Although most compensation methods are still acceptable under the new rule with both fees and commissions being allowed, excessive fees and/or financial incentives promoting one product over a product better suited for the investor are no longer legal.

Compensation agreements should be made available to all clients so they have a transparent view of what and how they are being charged. This will allow investors to factor fees and compensation into their decisions to work with an advisor, although fees and commissions should not be the only factor considered when making a decision.

With the added transparency, advisors who have already been working in their clients' best interest are now on a more level playing field with those who had hidden fees that could have made their offerings seem more attractive.

The rule will go into effect April 2017, but there are some exceptions. The Best Interest Contract Exemption and the Principal Transactions Exemption will not be fully implemented until January 1, 2018.

How do you protect yourself during the transition? The Committee for the Fiduciary Standard has been a proponent for advisors acting in the best interest of their clients and being accountable for the advice they deliver. Their five core principles--which include putting the client's best interest first, acting with prudence and good judgement, not misleading clients, avoiding conflicts of interest and disclosing any unavoidable conflicts--have been spelled out in an Oath (http://www.thefiduciarystandard.org/wp-content/uploads/2015/02/fiduciaryoath_individual.pdf) that they suggest clients request their advisors sign.

As a fee-only firm, we have long embraced the fiduciary model and include both a Code of Ethics and a Fiduciary Promise for our clients. We encourage investors seeking an advisor to use these documents or the Oath above in their search and request any potential advisor and the advisor's compliance department sign off on these documents with a promise to adhere to the stated standards.

Time will tell us just how effective the new DOL rule will be in protecting clients and how the investment world will adjust to meet these new standards. If you are searching for an advisor, this whitepaper—"The 5 Fundamentals of Selecting the Right Advisor" (http://searcyfinancial.com/images/pdfs/The_5_Fundamentals_of_Selecting_the_Right_Advisor_V2.pdf)--can help you in your search for finding an advisor that is right for you.

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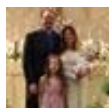


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