

Fiduciary Rule: Initial Impact Analysis

September 7, 2017

Presented To:



Study Objectives and Methodology



Ongoing Monitoring of Fiduciary Rule

The U.S. Chamber of Commerce has committed to monitoring the Department of Labor’s Fiduciary Rule and its impact on investors. As part of this ongoing effort, the initial research included outreach to **14 financial advisory companies**—insurance companies, financial product manufacturers, and broker-dealers. Collectively, these companies represent a significant portion of the retirement savings and financial advisory market in the U.S. They are responsible for nearly \$10 trillion in assets under management (AUM) out of \$16.9 trillion in the market, and they guide the financial future of nearly 26 million investment accounts.

Data illustrating the concrete steps taken by these firms in implementing the Rule were gathered through a collection of methods, including an online survey and one-on-one interviews conducted in July 2017.

The results highlighted in this report represent not only the actions taken by the industry in the implementation of the rule, but also the practical, real-life consequences being felt by retirement savings investors.

Executive Summary

Implementation of the Fiduciary Duty Rule has led to unintended consequences that significantly impact investors



Investors Will Be Worse Served

The unanimous view from the financial advisory companies participating in the research is that investors will be worse served by the full implementation of the Rule and that small investors will not have the same access to advice as other investors. Industry experts predict the greatest long-term implication of the Rule is that investors will put off saving for retirement.



The Elimination of Products

13.4 million accounts will lose access to products. Companies are taking a range of actions in response to the Fiduciary Rule. While some companies are operating in a holding period leading up to the currently scheduled January 1, 2018, implementation date, most companies participating in the research have already eliminated products during the transition period.



Restrictions on Providing Advice to Investors

There is a high level of uncertainty over what constitutes new advice for investors under the grandfather provision. This has, in turn, created a point of confusion for advisors and by extension the clients they service as the industry makes sense of what the new environment will look like depending on the outcome of the Rule.



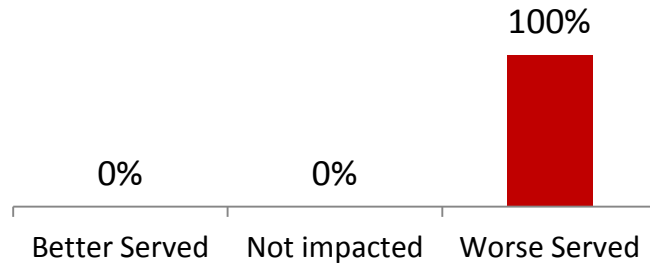
A Change in Fee Structures

The Fiduciary Rule has forced financial advisory companies to shift from a transactional-based model (or commission-based model) to a fee-based model. This transition impacts investors who work with advisors who no longer believe they can adequately provide services to accounts under this model. This structural change has also led to an increase in fees for certain clients, particularly low-balance investors.

Impact of the Fiduciary Rule on Investors



Survey participants believe investors will be worse served with the full implementation of the Fiduciary Rule



Financial advisory companies responsible for managing **nearly \$10 trillion in assets under management (AUM)** and **nearly 26 million investor accounts** believe when the Fiduciary Rule is fully implemented, small retirement savings investors will be **worse served**.

Eliminating Products	Increasing Fees	Setting Account Minimums	Switching to a Fee-Based Model
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“What we’ve seen on the retail side as a distributor is that we’ve had to **restrict product offerings on our shelf.**”

“Firms have had to basically levelize the commissions regardless of the underlying type of asset, equity, or fixed-income product. Investors who are in fixed-income **products actually could see their costs go up.**”

“Traditionally, we didn’t have account minimums on the brokerage side of our business. Today, we’ve had to **put in place account minimums.**”

“I think it will ultimately result in people moving away from a commission-based model. I think that advisors are just going to gravitate toward fee-based. And I think **fee-based isn’t always the best for the client.**”

Total AUM Data: \$9.9 trillion AUM represented in this response
 Total Accounts Data: 26 million accounts represented in this response
 Worse Served=significantly worse + somewhat worse served/Better Served=significantly better + somewhat better served



Participants believe smaller investors will be most harmed by the Fiduciary Rule

Advisors will be unwilling to take on risk

“Advisors aren’t going to want to take the risk of serving a small account based on the additional paperwork and time involved given the extra steps under the best interest conduct standard.”

Advisors will no longer service certain accounts

“We have seen an increasing number of what the industry calls resignations from accounts that historically have been serviced by broker-dealer firms. But due to any number of factors, generally for smaller accounts, they’ve made a decision to resign from those accounts.”

This will push small investors to accounts with no advice

“The small retirement investor is going to get hurt with full implementation of the Rule. In order to be able to service clients who have small account balances and to supervise and implement the full fiduciary standard with private right of action, I think it’s going to push a lot of clients out of full-service broker-dealer firms. Those clients are going to find themselves in self-directed situations or without access to advice because of the cost of doing business to the advisor.”

Thereby, investors will not receive adequate retirement advice

“Many firms, including us, are sending them to self-directed, right? So they will no longer get advice. They will be on their own to save for retirement. The [DOL] intended for small clients to get better advice. And unfortunately the cost to provide advice doesn’t allow many firms to give it.”



Investors will now face less access and fewer choices in financial products

13.4 million accounts have lost access to financial products



Financial advisory companies responsible for managing nearly \$4 trillion in AUM and 13.4 million investors have eliminated certain products as a result of the Fiduciary Rule

“I think the firms are paring back their investment services, what products they’re able to offer their clients. So, it’s just another way that this is narrowing the range of options and choices available to clients.”

“To date, we’ve largely eliminated products that were expressly prohibited by the principal trade exemption.”

“The variable annuity industry has been declining. I think that’s a shame because these are products that America needs and we’re making it harder for consumers to buy them.”



A range of products are being eliminated by firms, primarily mutual funds and variable annuities

Mutual Funds

“We had more than 120 mutual fund/direct mutual fund providers. But I think we dropped 70 initially because it just didn't make sense. It really wasn't in the best interest.”

“We are in the process of dropping down to 20 direct mutual fund providers.”

Variable Annuities

“We've closed, for example, many share classes in our variable annuity line. We've closed some share classes in our mutual fund line. So, they're just not available any longer.”

“We've had approximately 150 asset management companies represented, 170-plus, in our retirement space before the DOL [Rule]. We now have approximately 20. We have a much wider universe in the non-qualified space where clients and advisors have access to many more funds and fund companies. We've narrowed our annuity universe from 17 annuity manufacturers to six in the variable annuity space.”

Fixed Annuities

“Fixed index annuity: I think that they're going to go down because that's a product that's largely been sold outside of the broker-dealer community.”

Exchange Trade Funds/ETFs

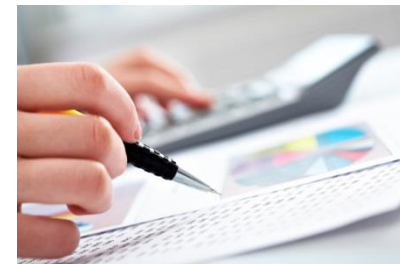
“We no longer allow IRA clients to buy individual stocks, including individual ETFs, inside of a brokerage account.”

With changes in fee structures, retirement services will be more expensive for low-balance investors



6 Million

Investor client accounts work with companies that are increasing their fees in response to the Fiduciary Rule



“I would say that, for the industry as a whole, since many people are shifting toward a fee-based model, that’s going to have an adverse impact on low-balance investors. This is because it’s uneconomic to serve those customers, so they will either have to **pay a higher fixed fee or a higher percentage than they are paying today.**”

“There will be advisors who move to fees and may not deliver the full service model on a fee-based platform. **And the client is paying more for, in effect, the same level of service** that he/she got in commissions, which is not really in their best interest.”

“Generally, you see tiered advisory fees by account size. The highest advisory fees are generally found at the lower account sizes. That just continues to drain their account value more than higher account sizes given smaller advisory fees. So, we feel like even if an advisor takes on a small account, it is **most likely that the annual advisory fee is going to be higher just based on the industry standards.** That’s going to further negatively impact the client’s account over time. “

AUM Data: \$1.5 Trillion AUM represented in this response
Accounts Data: 9.4 million accounts represented in this response



U.S. Chamber of Commerce
Standing Up for American Enterprise

The DOL's grandfather provision* creates confusion for both advisory firms and investors



4.4 million accounts have had to be moved into a different service not requested by the investor

“What becomes very confusing for a client is to call his agent or broker, one of these grandfathered clients, and say, hey, what do you think? Should I take my money out of the markets? Now they’re no longer asking for advice. If the Rule were in effect, it would no longer be grandfathered, if you will. Now they have to fall under that advice law.”

“If we could continue and say that all accounts are grandfathered, we could help—as long as they were issued prior to the Rule, we grandfather them, they’re not affected by the Rule. Whatever you do with respect to that contract will not make you a fiduciary because we don’t have a whole system complying with BICE and because we got rid of that whole book of business. Complying with that exemption is very burdensome, very expensive, and there’s no reason for us to do it.”

“The grandfathering provision allows us to do certain things up until the point where new advice is provided. But once new advice is provided, we would lose the grandfathering. And we’d have to be in full compliance. And for certain product types we’re just not able to do that.”

*The grandfather provision under the DOL Rule allows for the continued receipt of existing commissions and trails and the ability to provide limited advice relative to the investment positions that are in place prior to the June 9, 2017, Applicability Date without compliance with the full provisions of the BICE.





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