Research

DOL's Fiduciary Rule Costs Investors Not Only Choice But Also $1500

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At a congressional hearing last week one of the most troubling arguments was made in opposition to the Department of Labor's (DOL) proposed fiduciary rule. Many retirement savers will be forced to pay adviser fees for investment products and services for which they already have paid a commission-based fee. Considering that a majority (51 percent) of retirement accounts have balances less than $25,000, having to pay duplicative fees particularly hurts those that need saving and investment advice the most.

According to the Census Bureau, there were 115.6 million American households in 2013. Of those households, 49.2 percent had a retirement account. That leaves us with 56.9 million retirement accounts containing assets totaling $7.3 trillion. DOL's Regulatory Impact Analysis argues that the proposed rule would put an end to conflicts of interest that it claims come with commission-based retirement advice and argues that, as a result, the fiduciary rule would save investors an estimated $17 billion each year. That couldn't be further from the truth.

Of that $7.3 trillion in retirement assets, 86.2 percent is in a commission- or transactional-based account, meaning that, instead of paying high fees directly to the adviser simply for his or her advice, the adviser is taking a smaller fee that is a portion of the gains in the account. This translates to roughly $6.3 trillion in assets in retirement accounts on which a commission-based fee has already been paid. If DOL's fiduciary rule is enacted as proposed, each of those accounts will be moved to a fee-based account (assuming they won't be closed entirely for lack of a profitable minimum balance), thereby forcing retirement savers to pay an adviser fee on top of the commission they've already paid.

Even with a fee of just 1.2 percent (The lower the balance in the account, the higher the fee, and vice versa. So with 91 percent of retirement accounts containing less than $250,000, chances are the average adviser fee would be much higher.) that's $75.6 billion in duplicative fees on American retirement accounts, or an average of over $1500 per household account. These people saving for retirement shouldn't be forced into fee-based accounts that they don't want, and they certainly shouldn't be forced to pay twice for those services – especially when that second payment is $1500 or more.