*By* **STEVE VERNON** / **MONEYWATCH** / *February 23, 2015, 5:49 PM*

# Don't wait for Obama's financial advisor rules



President Obama is asking the U.S. Department of Labor to develop a proposal that would require fiduciary standards for financial advisors and brokers who handle retirement accounts. These proposals would specifically target situations where advisors and brokers have the potential to deliver conflicted advice because the advisors or brokers receive fees or commissions that depend on what their clients invest in.

In cases like this, the best recommendation for the individual may not be the solution that's best for the advisor's compensation -- thus, the conflict.

This proposal brings to light a critical retirement planning challenge that has a real, direct impact on the financial security of retirees. A report released Monday by the White House claims that conflicted advice leads to lower investment returns of roughly 1 percentage point per year and that the aggregate cost of conflicted advice is about $17 billion per year.


*Play* **VIDEO**

**Obama tells financial advisors to put client interests first**

The report also says retirees who receive conflicted advice will "lose an estimated 12 percent of the value of his or her savings if drawn down over 30 years." Put another way, a retiree's savings would last five years longer during retirement if she received unconflicted advice compared to conflicted advice. The White House report cites a number of academic studies in support of its point of view.

To help protect retirees' savings, the proposal would mandate that advisors and brokers who provide advice regarding IRA and 401(k) accounts adhere to what's known as the "fiduciary standard," where their highest priority would be to make recommendations with a client's best interests in mind. The current alternative to the fiduciary standard that many advisors and brokers follow is that a recommended investment simply be "suitable" for their clients.

Unfortunately, this standard allows advisors and brokers to recommend investments that may deliver significant compensation to the advisor, as long as the investment is compatible with their client's goals and objectives.

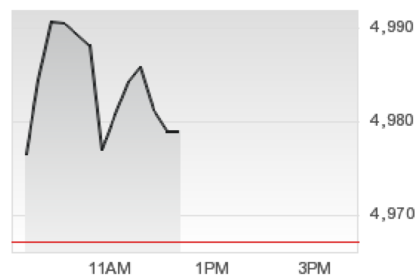
The battle lines are already being drawn, with some financial industry representatives claiming that Obama's proposals would require brokers to abandon low- and middle-income retirees, that the financial industry is already



## Market Data

Enter Ticker Symbol or Company Name

*NASDAQ: Mar 05, 2015*




| *Symbol* | *Last* | *Change* | *% Change* |
|---|---|---|---|
| **DOW** | 18,123.39 | +26.49 | +0.15% |
| **NASDAQ** | 4,979.01 | +11.87 | +0.24% |
| **S&P 500** | 2,099.52 | +0.99 | +0.05% |

highly regulated and that disclosure of the standards advisors and brokers use is sufficient to allow consumers to make informed decisions.

Predictably, critics are claiming they can deliver more money to consumers through a smart selection of investments. And, of course, consumer advocates are applauding the proposals.

What does this mean for anyone who's relying on an IRA or 401(k) account for retirement security? Don't wait for these proposals to become effective, which might take years and could eventually be watered down. It's best for you to be vigilant now about managing your retirement savings.

The fiduciary standards would be a step in the right direction, but they don't guarantee results: It's still possible that your advisor might adhere to the fiduciary standard but lack the training or experience to guide you to a successful retirement.

To protect your savings, you'll want to take the following steps:

- Ask any potential advisors if they adhere to the fiduciary standard or the suitability standard. If they don't adhere to the fiduciary standard, ask them why. And ask how they'll make recommendations that will best serve you.
- Ask them to show you how much compensation they'll receive for various investments they recommend. It's just good old American capitalism at work to ask potential advisors the price of their services. If you don't understand their answer, consider finding an advisor who can explain how much they charge in language you can understand. It's your money, and you have a right to know.
- Investigate whether your 401(k) plan offers financial advice. Such advisors typically follow the fiduciary standard, and they often charge much less than retail advisors.
- Be aware of the importance of keeping your investment costs low and the long-term impact of active vs. passive management. A boatload of academic studies support the conclusion that low-cost, passively managed investments outperform high-cost, actively managed investments over the long run. These studies provide evidence that disputes claims by brokers and advisors that their higher costs can be supported by higher returns. Many employer-sponsored 401(k) plans offer low-cost index funds, and you can find such funds for your IRA at investment firms such as Fidelity Investments and Vanguard.
- Be extra vigilant at transition times, such as when you leave your employer or retire. Conflicted brokers may advise you to roll over your money to their investments, even if you could simply leave your savings in your employer's plan and continue to use investments with lower costs and potential for higher net returns.
- When you retire, you'll need to make critical decisions on when to start your Social Security benefits, and whether to invest your savings to generate retirement income (systematic withdrawals), buy an annuity with a lifetime guarantee of your income, or use some combination of these two approaches.
- Find an advisor who's compensated in a manner that doesn't depend on the investment decisions you'll make and has training and experience with generating retirement income, which is one of the most complex retirement planning decisions you'll make.

The bottom line: Be your own retirement regulator! It doesn't take a lot of your time to become an informed consumer. In effect, you'll be paying yourself thousands of dollars over your lifetime with the enhanced results you might achieve.


### Steve Vernon

**ON TWITTER »**

View all articles by Steve Vernon on CBS MoneyWatch»

Steve Vernon helped large employers design and manage their retirement programs for more than 35 years as a consulting actuary. Now he's a research scholar for the Stanford Center on Longevity, where he helps collect, direct and disseminate research that will improve the financial security of seniors. He's also president of Rest-of-Life Communications, delivers retirement planning workshops and authored *Money for Life: Turn Your IRA and 401(k) Into a Lifetime Retirement Paycheck* and *Recession-Proof Your Retirement Years*.


## Recommended

3 accused of sexually abusing, imprisoning California woman for weeks

Teacher found hanging in high school classroom in California

Sara Gilbert and Linda Perry welcome baby boy



## Featured in Moneywatch


### 11 things about Walmart that may surprise you

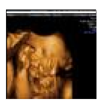
Do you know how rich the family of founder Sam Walton is or where Walmart stands as a user of solar power? Read on

### The most overrated and underrated jobs of the year

Some of these careers are not all they're cracked up to be, while others have serious potential

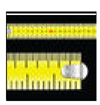
## Popular on CBS News

Houston family gives Bobbi Kristina update
25 **COMMENTS**

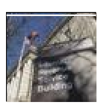


FDA warns against "keepsake" ultrasounds
107 **COMMENTS**

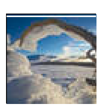
Japan's Cat Island
15 **PHOTOS**



"Am I normal?" New study on penis size has answers
84 **COMMENTS**



Dangerous "IRS" scam unfolding on your phone
248 **COMMENTS**



Winter in Yellowstone
31 **PHOTOS**

Fighting lawmakers
18 **PHOTOS**

Stars' famous last tweets
12 **PHOTOS**

12:49 PM Student injuries reported in Washington school bus accident

12:43 PM Americans spent $58 billion to pamper, protect pets in 2014

12:42 PM Prosecutor to seek charge against police chief who shot wife

12:39 PM Prosecutor to seek misdemeanor charge, but no felony, against police chief who shot wife

12:32 PM Boko Haram killing men, tribes linked to Chad, witnesses say

12:30 PM Phelan, Ford share 1st-round lead at Africa Open

12:30 PM Lawmakers reviewing bill to allow concealed guns at colleges

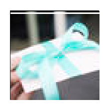
12:27 PM UN: Almost half a million people in Darfur displaced in 2014

12:27 PM Judge asked to give boy, then 11, new trial in 2009 slaying

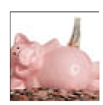
12:23 PM 2 Smithsonian museums open despite winter weather in DC

**MORE HEADLINES**

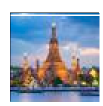
## Moneywatch Spotlight



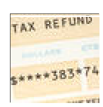
10 inspiring acts of generosity



5 ways to game yourself into saving cash



The top 5 overseas retirement havens for Americans




How to use your tax refund to build credit

15 things kids today will never do

## Stock Watchlist

# 1 Comments