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Retirement savings rule to go into effect in June

Financial brokers will now need to put the interests of retirement savers ahead of their own since the Department of Labor has determined that no further delay of the "fiduciary rule" is necessary or warranted. Labor Secretary Alexander Acosta announced that the federal regulation originally scheduled to go into effect on April 10 and delayed by order of President Trump, will now be implemented, at least in part, on June 9. (https://washingtonpost.com/news/get-there/wp/2017/05/23/labor-department-will-avoid-further-delay-of-retirement-savings). The department will not enforce the regulation until January 1, 2018.

The fiduciary rule was more than 6 years in the making. The purpose is to set higher standards when brokers give advice to those saving for retirement. In other words, the brokers must put the clients' interests before their own, that is, to work for the clients' best interests. This may seem obvious, but until now the clients' best interests was not necessarily the motivating force for all financial advisors. This rule is intended to cut down on conflicts of interest in retirement advice.

Note that Acosta said that the department "found no principled legal basis" for delaying the implementation of the rule any longer. However, the department will still work to comply with the law and the president's request to continue to seek public input and its impact on retirement savers until January 1. If the rule is found to "harm American workers and families," the department will move to change the rule. So the law in this area is not yet settled. Some financial firms and industry groups are concerned that the unintended consequence will be that some investment options will be eliminated. Nevertheless, the executive vice president of AARP, Nancy LeaMond, stated that "Secretary Acosta's decision is a significant victory for middle-class Americans trying to save for their retirement." An industry trade group also weighs in when Kenneth E. Bentsen, president and chief executive of the Securities Industry and Financial Markets Association said that he was glad that the rule will be continued to be evaluated. He states, "We hope that…they will conclude, as we believe that the evidence clearly shows, that dramatic and fundamental changes are appropriate and necessary."

Those who favor the new regulation say that it will make it more difficult for brokers to recommend investments that lead to a bigger payout for them, even if there are better options for their clients. Democrats and consumer groups are in favor and the opponents are Wall Street firms and Republicans. The Labor Department estimated under the Obama administration that such questionable advice is costing retirement savers about $17 billion a year.

Some financial firms have already made adjustments to comply with the new standards. Individual retirement savers should inquire of their advisors if they are in compliance with the new standard.