New fiduciary rule can save billions in fees on precious retirement accounts

Regulation set to go into effect April 2017

BY: TERRI HIBBARD, *Correspondent*

A retirement account such as a 401k is a huge help when the paychecks stop and Social Security checks don't stretch far enough to cover all the expenses.

But most of us have been paying hidden fees on those retirement account investments, fees that are eating away great chunks of our savings, up to $17 billion a year nationally, according to the U.S. Department of Labor.

The problem with these retirement accounts is that they are investments and most of us don't know enough about stocks, bonds and other investments to choose those that will preserve and grow our funds.

That's why we go to financial advisors. They are supposed to be knowledgeable enough to help us put our money where it will prosper and be there when we need it.

Financial advisors, however, do need to earn a living and many earn it from fees that are tucked into those investments, fees that are not mentioned on monthly statements. The new Department of Labor fiduciary rule set to go into effect next April is going to change that. Fiduciary relates to or involves trust, such as the trust between a customer and a professional.

When it comes to retirement accounts, every financial advisor will now have to invest a client's retirement fund where it will benefit the client first and foremost. That means that an investment product that pays a nice fat fee to the advisor but does not best serve the client's interest could make that advisor liable for a lawsuit under the fiduciary rule.

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Bert Languet, Certified Financial Planner®
Vice President, Golden Pond Wealth Management

"The DOL's rule proposal was designed to create a broader definition of fiduciary so that all individuals providing advice are held to the fiduciary standard," said Bert Languet, Certified Financial Planner® and vice president at Golden Pond Wealth Management. "As a result, there will be more transparency regarding investment fees and costs. Many folks are invested in complicated products in which they might not understand the expenses and risks."

When a client comes to Golden Pond Wealth Management in need of help with investing, Languet said, "we spend time discussing goals and objectives in order to determine the proper mix of stocks and bonds in their portfolio. Factors such as age, risk tolerance, and knowing when the money will be needed, help in determining the proper asset allocation."

The new fiduciary ruling won't make much of a difference to his firm, according to Languet. "We are primarily a fee-based asset manager," he said.

"Golden Pond, through LPL Financial, a registered investment advisor, charges a percentage based on the size of the account, according to Languet. The larger the account, the lower the percentage; the smaller the account the higher the percentage.

The fees are disclosed during the initial planning stage and are shown on the quarterly advisory statements. "We feel that being fee-based puts us on the same side of the table with the client," he said.

This ruling will affect a lot of financial advisors. We have embraced fee-based advisory accounts for 20 years, and have made an effort to educate clients on the costs in the non-advisory accounts."

Craig Stevens, an Augusta licensed investment advisor and president of Maine Center for Wealth Management, LLC, wants his clients to be very knowledgeable about their financial matters.

"I encourage all my clients to learn as much as they can about all of these issues," Stevens said. "They're going to affect us throughout our retirement, all our lives really. It will take a considerable amount of time but this is terrifically important."

Stevens said he has pledged to always act as a fiduciary for his clients with up-front fees not hidden in investments.

As it stands now, some financial advisors are required by law only to recommend investments that are "suitable" for the client. Other advisors are required by law to act as fiduciaries and to make investment recommendations that are in the "best interests" of the client. Understanding what investments are "best" for each of us is not easy, said Stevens. "It's a complex world to be sure."

Many advisors are licensed to sell insurance products as well as securities (stocks, bonds and mutual funds), while others provide advice but do not sell investments. So, Stevens said, it's difficult for a client to know under which license the person has made recommendations and whether the recommendation meets a suitability standard or a fiduciary standard.

"Under the new fiduciary rule, advisors must act as fiduciaries when providing recommendations regarding securities within retirement accounts. Regarding retirement accounts, advisors will have to disclose conflicts of interest as well as details about any commissions to be earned," he said.

What is a Fiduciary?

Relating to or involving trust, such as the trust between a customer and a professional.
From the Latin, fidere, "to trust."
A fiduciary is a person who acts in a fiduciary capacity.

Nevertheless, the new fiduciary rules do not cover non-retirement accounts, so investors will still need to consider the type of advice they're receiving regarding these accounts.

"Whenever a person sits down with a financial advisor, he or she should understand under what standard their advisor is providing advice," Stevens said. "If the advice falls under the suitability standard rather than the fiduciary standard, it is the investor's responsibility to determine whether the investment is in fact 'best' for them."

What you can do, he said, is ask "In this transaction, what is the standard you're using? The suitability standard, or are you acting as my fiduciary?"

Finally, he said, "Choose an advisor who has pledged to always act as a fiduciary in every transaction. If that service is available, why not seek it out?"

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