Public Goods Post

—— thinking about the public economy ——

Every day, Americans benefit from public goods in the form of financial protections that virtually no one sees. These invisible protections come in many forms: the insurance of bank accounts, required disclosure of consumer loan terms and costs, and the right to view your credit history which has been compiled by private credit bureaus.

This month the U.S. Department of Labor created a new financial protection for Americans. The Labor Department issued a rule that requires financial professionals advising on retirement investments to give advice that is in the best interest of their customers. Most people assume that that's always been the case. But it hasn't.

Citing extensive academic research, the White House Council of Economic Advisers has found that over $17 billion is being lost each year due to conflicts of interest on the part of the investment advisors to whom we turn in making decisions about our retirement savings. All too often, researchers have found, financial advisors steer customers toward investments that provide the highest commission to the advisor rather than the best returns to the investor.

The new rule aims to end this conflicted advice. Retirement investment advisors will now be legally required to act in their clients' best interest. The rule is scheduled to take effect in April 2017. According to the *New York Times*, "The government move is expected to encourage a shift of retirement funds into lower-cost investments — potentially saving billions of dollars for many ordinary investors — while setting off one of the biggest upheavals in the financial services industry in decades."

ARTICLES ON THIS NEW FINANCIAL PROTECTION

Retirement Savings Made Safer

The New York Times | April 7, 2016

"[N]ew rules issued this week by the Labor Department...require financial advisers to act solely in a client's best interests when giving advice and selling investments for retirement accounts. The best-interest requirement, also known as a fiduciary duty, will be a big improvement on current practice, in which many advisers are free to steer clients into high-priced strategies and products even when comparable but cheaper ones are available."

'Customers First' to Become the Law in Retirement Investing

The New York Times | April 6, 2016

"The rules governing how financial professionals handle the trillions of dollars they invest on behalf of Americans saving for retirement are about to get a lot tougher...There are piles of money at stake: Individual retirement accounts held $7.3 trillion at the end of 2015...while 401(k)-type plans had $6.7 trillion — money that may eventually be rolled over into I.R.A.s."

"The Labor Department, after years of battling Wall Street and the insurance industry, issued new regulations...that will require financial advisers and brokers handling individual retirement and 401(k) accounts to act in the best interests of their clients...[T]he new rules — six years in the making — require a broader group of professionals to act as "fiduciaries," the legal term for putting customers' interests first...For the last year, the industry has lobbied Congress to delay or kill the rules, so far without success."

Editorial: Retirement advisers must now put customers first

St. Louis Post-Dispatch | April 7, 2016

"Many consumers mistakenly thought advisers already operated under such rules. Advisers were generally required only to recommend suitable investments. They could promote products that paid them higher commissions, instead of identical products with lower commissions."

"If money managers aren't already in this business to provide sound advice, they should find another line of work. This is a win for hard-working Americans. Predatory financial advisers need to hit the road."

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The Public Goods Post has been created by June Sekera,
Founder and Director of the Public Goods Institute; and Research Fellow at
the Global Development And Environment Institute, Tufts University.

The Public Goods Post is produced by Daniel Agostino,
Media Producer and Editor.

Contact us:
Editors@publicgoodspost.org