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Lawmakers Hit Brakes On Proposed Fiduciary Broker Rules

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Lawmakers in Congress are fighting with U.S. Department Labor Secretary Thomas Perez and President Barack Obama over proposed new regulations on the investment industry.

Congressional Democrats are calling on the Department of Labor (DOL) to open a period for public comment after a final version of the rule is published next year, adding delays to the rule change's implementation, during the final days of the Obama administration.

If DOL's proposed rule takes effect, investment brokers would be held to a "fiduciary standard," requiring them to act solely in the client's interests, instead of the current "suitability standard" requiring a "reasonable basis to believe that the recommendation is suitable for a particular customer."

Making Brokers Broke
Thaya Knight, an associate director on financial regulation studies at the Cato Institute, says the fiduciary rule will make investment advice too expensive for consumers.
"The problem with putting brokers under the fiduciary duty standard is that it would make it difficult for many brokers to continue working on commission," Knight said. "The result of the new rule would likely be that most people would switch to a fee system. If the client has only $20,000 in assets under management, which is fairly typical for many Americans, it wouldn't be worth the effort for just 1 percent of $20,000."

Worst-Case Scenarios
Knight says the government's justification for the rule is based on bad assumptions.
"A report from the President's Council of Economic Advisors came out earlier this year, claiming that 'conflicted advice' was costing Americans $17 billion a year," Knight said. "The report assumes that every broker is currently giving the worst advice and that people are buying only products with high fees, and that under a new rule every broker will continue doing the work [they're] doing, but will only advise people to buy products with the lowest fees, and that people will in fact always buy those products."

Obamacare For Your 401(k)
John Berlau, a senior fellow at the Competitive Enterprise Institute, says the Obama administration's proposed fiduciary rule is similar to Obamacare in key ways.
"People will lose brokers and other financial professionals they rely on, just as they lost health plans under Obamacare," Berlau said. "The big reason is that Obama officials themselves are the ones invoking medical analogies. Like Secretary of Labor Thomas Perez told reporters, 'you

don't want your doctor telling you what's suitable for you; you want that doctor to tell you what's best for you.'

"Perez doesn't seem to get something informed patients and investors know well: that there is not one answer of what is 'best for you,' in either medicine or retirement saving," Berlau said. "Savers should have the freedom to weigh the potential risk and return of various investment plans. It's not the job of the DOL or any government agency to be our parent and protect us from our own judgment.

"Who is the Obama administration to decide we can't prudently manage our investments when it blew $500,000,000 on a failed green energy boondoggle with Solyndra," Berlau said.