FOCUS ON WELLNESS & EMPLOYEE BENEFITS

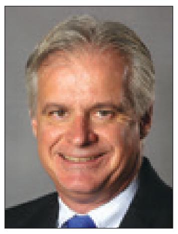
OPINION

Proposed rule demands greater clarity in fee disclosure

By MICHAEL JOYCE
Special for Lehigh Valley Business

The ethical standard to which Registered Investment Advisers are held soon might be required of all retirement investment advisers.

Last month, the U.S. Department of Labor proposed a new rule requiring that all financial advisers to retirement plans adopt the same fiduciary standard – that is, to work in their clients' best interest.


Joyce

According to the DOL website, it is the advisers' duty "to help design and enforce rules and regulations under the federal pension law that help protect America's workers when they put their retirement savings in the hands of brokers and other financial advisers."

On April 14, after analysis by the White House Council of Economic Advisers determined that conflicts of interest result in $17 billion in annual losses for consumers, the DOL issued a notice of proposed rulemaking "to require [the adoption of the] best-interest standard across a broader range of retirement advice to protect more investors."

NO MORE 'HIDDEN' FEES

The proposed rule demands greater transparency in the disclosure of retirement adviser fees. Under the new rule, adviser fees, like stock commissions, bond fees and mutual fund fees, would have to be clearly delineated for consumers in all promotional materials, both print and digital. Fees could no longer be hidden in fine print.

In the current climate, even without the new rule in place, many reputable brokers and advisers work in their clients' best interest – despite not being legally bound to do so. But misleading promotional materials, loopholes and dated regulations can make the American consumer vulnerable to and leery of the retirement adviser industry.

RULES REFLECT REALITY

It's been 40 years since the rules that govern retirement advice have significantly changed. In that time, most private retirement planning has moved away from company pensions to individually-directed IRAs and 401k's.

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CHANGES AFOOT FOR RETIREMENT ADVISERS

The U.S. Department of Labor issued a proposed rule that demands greater transparency in the disclosure of retirement adviser fees. If approved, all retirement investment advisers are likely to be held to the same ethical standard as Registered Investment Advisers.

STEPS TO THE NEW RULE:

- On Feb. 23, President Obama directed the U.S. Department of Labor to move forward with a proposed rulemaking regarding retirement advisers and conflicts of interest.
- On April 14, the Department of Labor declared its new best-interest rule and requests comments on the proposal (for a period of 75 days).
- A public hearing will be scheduled shortly after the close of the 75-day comment period.
- After the public hearing, the public record will be reopened for comment.
- After reviewing all comments, the Obama administration will decide what to include in the final rule, and the Department of Labor will issue the ruling.

BENEFITS

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more of their waking hours at work, and worksites have a powerful impact on individuals' health."

The department stresses the importance of focusing on physical inactivity, poor nutrition and tobacco use, what it calls the top three lifestyle choices that contribute to a decrease in a company's bottom line. Other topics addressing specific workforce needs might include night-shift concerns, environmental exposures and medication management issues.

"Employers face indirect costs two to three times higher for an employee's poor health," the department advised, making an employer's wellness program one of the most cost-effective employee fringe benefits available.

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EXPORTERS

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"Our importers are better off, and our exporters are worse off," said Alex Nikolsko-Rzhevskyy, assistant professor of economics at Lehigh University in Bethlehem.

Over the past few years, the U.S. economy has shown an overall improvement across a variety of sectors, from job gains to retail sales. Europe, on the other hand, is faced with a large economic crisis, stemming mainly from high unemployment.

"Essentially, the U.S. economy is doing better than other countries of the world," Nikolsko-Rzhevskyy said. "In Europe, on the other hand, things are not looking good."

One of Europe's biggest problems is its high unemployment rate, he said.

"Interest rates in Europe will probably stay low for a long time," he added.


Robbins

'This has actually strained manufacturers who are looking to sell their suddenly more costly products overseas or compete with foreign companies on bids.'

— **Darlene Robbins, Northeast Pennsylvania Employers & Manufacturers Association**

However, in the U.S., interest rates could go up. The federal bond rate is at zero but this could rise in the fall, he added.

"U.S. assets are a very good investment right now," Nikolsko-Rzhevskyy said. "Since our prices are fixed in U.S. dollars, it means when U.S. exporters export those goods abroad, it becomes more expensive."

SMALLER PROFITS

To buy one euro a year ago, one spent $1.37. Today, one could buy a Euro for $1.07, Nikolsko-Rzhevskyy said.

"That definitely made imports into the U.S. cheaper," Nikolsko-Rzhevskyy said. "… Foreign demand for our exports is down because when U.S. prices are converted to foreign currency, now their prices are more expensive."

This situation will last a while because Europe's problems are not over, he added.

"Our assets will stay competitive relative to foreign assets," Nikolsko-Rzhevskyy said. "Things will change when problems with Europe are over and they start to raise their interest rates."

DRAIN ON OVERSEAS DEMAND

The U.S. dollar has been growing increasingly strong in recent months, thanks to a growing national economy and falling oil prices, said Darlene Robbins, president of the Northeast Pennsylvania Employers & Manufacturers Association in Pottsville.

"This has actually strained manufacturers who are looking to sell their suddenly more costly products overseas or compete with foreign companies on bids," Robbins said. "U.S. businesses with substantial overseas sales are feeling the effects of the strengthening dollar."

The strong dollar has the potential of damaging overseas demand, Robbins added. A strong dollar hurts the revenue of companies by making U.S. goods more expensive for foreign buyers and cutting the value of overseas sales when they are converted back to dollars.

"U.S. companies with most of their businesses located in the U.S. will fare better by a strengthening U.S. dollar," Robbins said. "In general, U.S. companies that are large exporters will be hurt by the strengthening dollar."

EURO VALUE COULD DROP MORE

It is a problem for everyone in the export market in the U.S., said Kamran Afshar, president of KAA Inc., a market research firm in Bethlehem and the chief economist for the Greater Lehigh Valley Chamber of Commerce.

Historically, the value of the euro oscillates slightly, often by a few percentage points, but not by as much as 15 percent, Afshar said.


Afshar

'So this is a huge drop in value for the euro.'

— **Kamran Afshar, economist**

Since the European Central Bank adopted a quantitative easing model from the U.S. Federal Reserve, the value of the euro will continue to go down, though maybe not as much as 15 percent, Afshar said.

"This will continue; it is safe to say it will not go up in the near future," he said. "This is something that happens all the time in overseas trade, but it is almost always a much smaller change."

In the past, changes to the euro have been about $1.30 to $1.32, he said. Now it's about $1.14.

"So this is a huge drop in value for the euro," Afshar said. "It makes the products manufactured here more expensive for Europeans to purchase.

"If they [U.S. manufacturers] maintain their price, they will lose a share of their market. However, you look at it, they lose profit."

DISCLOSURE

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With this shift, individual investors have become increasingly dependent upon the advice of brokers and advisers. Over these years, RIAs always have been held to a higher standard, required to work in their clients' best interest.

So when the DOL's new rule is finalized later this year, RIAs can hit the ground running with clients; there will be no adjustment period for this type of adviser.

SOME CRITICIZE CHANGE

Some industry groups are opposed to the DOL's new rule since they say it could increase investment costs for the average saver. Brokers not already held to the fiduciary standard would have to change their compliance programs and increase internal oversight – which some believe would increase retirement plan costs.

However, there are plenty of advisers, including RIAs, who already have the systems in place to effectively and lawfully advise retirement plans.

The brighter light of disclosure would decrease costs in retirement plans.

Until late June, the public can comment on the DOL's newly proposed rule toughening oversight of financial advisers. People also can make their opinions known at a public hearing that will be scheduled. There is no doubt that the new rule will be in the best interest of investors.

Michael Joyce, founder and president of JoycePayne Partners of Bethlehem and Richmond, Va., is responsible for overall investment strategy, management of investment portfolios and financial counseling services. He has more than 30 years of experience in the financial industry and seven times was named a top 100 wealth adviser in the nation by Worth magazine. He can be reached at mjoyce@joycepaynepartners.com.

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