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Fiduciary rule could impact brokers the most

By Mike Nesper

The Department of Labor’s proposed fiduciary rule will have a major effect on the retirement industry and brokers could be the most affected group. They’re going to be impacted by this probably greater than anyone else, said Managing Consultant Scott Brogan, one of three BridgePoint Group, LLC panelists that discussed the proposals potential impacts Tuesday at the SPARK Institutes national conference in Washington, D.C.

The new rule could be especially harsh for generalist brokers, said Brogan. It will be a very negative impact to generalists, he said.

Generalists focus on small markets, and those plan sponsors will also be negatively affected, Brogan said, such as seeing fewer startup plans. Specialists, on the other hand, could see a short-term uptick in business because generalists will be looking to partner with them, he said.

However, there could also be more competition. In the past, specialists were able to market themselves as fiduciaries; soon all those who provide investment advice will be able to make that claim, Brogan said.

Potential class-action lawsuits are another aspect that advisers need to be thinking about, he said, as plan participants would be able to sue fiduciaries if harmed by poor advice. Recommending another fiduciary to a client could also make an adviser liable, Brogan said.

DOL proposal is a little murky

It’s a little murky, CEO Barbara March said. While the proposal is still in the early days, all firms should be considering the cause and effect the new rule could have, she said. A good way to do that is by looking at the rule through all lenses broker, vendor, plan sponsor, participant March said. This is not a one-dimensional issue, she said. You need to understand this through every dimension.

A good first step is to have compliance and legal teams provide an interpretation of the proposal, she said. From the beginning, organizations should take a balanced approach from both a legal perspective and a business perspective, March said.

Prior legislation can be an educational guide, said Practice Director Shelli VanDeMark Kendig. In the past, some firms waited too long to take action, she said. That’s not a good approach firms need to start work immediately, Kendig said. Preparing and planning now is the best strategy for a successful outcome, she said.

The proposal isn’t all bad news. Any change creates opportunities, March said. And it will bring clarity to the definition of a fiduciary, Brogan said. That’s beneficial to the plan sponsor, he said.

The new fiduciary rule could be the most significant change in four years, March said, and the industry needs to combine its efforts on the matter. At the end of the day, we’re the experts, she said. This is a time for us to bring our expertise to the table.