# Financial Advisors Say DOL Rule Would Reduce Access to Advice and Harm Client Relationships

***NAIFA members concerned 'best-interest contracts' required under rule would confuse clients***

Falls Church, Va., June 22, 2015 -- A survey by the National Association of Insurance and Financial Advisors (NAIFA) found that a majority of insurance and financial advisors are concerned that the Department of Labor's proposed "investment advice fiduciary rule" will harm advisor-client relationships, interfere with advisors' ability to serve retirement investors and increase costs.

Under the proposal, advisors receiving commissions, revenue-sharing and other third-party compensation would be required to sign complicated and confusing "best interest contracts" with clients before making any recommendations.

According to the survey, two-thirds of advisors said they anticipate that the proposed rule would result in their losing clients because they believe clients would be intimidated or unwilling to sign the contracts required under the proposal, and because the burdensome data retention and disclosure requirements would make it impossible for advisors to affordably serve small or medium-size accounts.

More than six out of 10 respondents (61 percent) said the contract requirement is likely to harm their relationships with existing clients. Some 35 percent said the harm done to those relationships would be "significant." Only 4 percent of respondents said the contracts would improve relationships with existing clients, while 36 percent said either the contract will have no effect on relationships or they are not sure.

"Requiring a person to sign a contract while you are asking them to open up to you about their financial situation would be very disruptive for some clients," said NAIFA President Juli McNeely. "They may not understand why they need to sign something just to have a conversation, especially if this is a person you've been working with for years. More paperwork does not always mean more peace of mind."

**DOL rule would impact small businesses' ability to serve clients with minimum account balances**

Nearly 87 percent of advisors who responded to the survey said they anticipate that implementation of the DOL rule would result in higher errors and omissions insurance premiums for their practices. Of those, 58 percent said they expect E&O premiums to increase "substantially." The rule would increase liability for advisors by requiring them to enter into legal contracts with clients and opening them to lawsuits in both state and federal courts. Only 4 percent of respondents said they do not believe the DOL rule will result in increased E&O costs, while 9 percent are not sure.

The exemption would also require an annual disclosure document for each client detailing all transactions, fees and expenses, and the advisor's direct and indirect compensation. On top of that, financial institutions would have to maintain and update web sites that show the total costs of all investments available to retirement account holders.

"Increased paperwork and electronic disclosures equal increased costs, and this would be particularly burdensome for smaller firms with limited resources," McNeely said. "Add to that the increased liability and the potential for advisors to be sued in both state and federal courts and many may have no choice but to shift their business to wealthier clients who can afford higher fees or to leave the retirement space altogether."

Increasing costs and contractual obligations are likely to impact advisors' relationships with existing clients. Currently, only 26 percent of respondents require clients to maintain minimum account balances. Some 46 percent of those who currently impose no account minimums said they would likely do so, should the DOL rule go into effect, and 41 percent said they are not sure. Of this group, 21 percent said they would require minimums of $100,000 or more.

**The Rule Would Limit Advice on Annuities**

The DOL favors monthly lifetime income projections for plan participants (as does NAIFA) yet, ironically, the proposed DOL fiduciary rule would make it much more difficult for consumers to receive advice on the purchase of annuities. Annuities are the only product that can guarantee a lifetime income. If enacted, the proposal would create different rules and conditions for various types of annuities and for various types of plans (IRAs/401(k)/DB plans). For some annuities, the definition of "commission" would be changed. At a time when the SEC and FINRA seek to reduce customer confusion, the DOL rule would do the opposite.

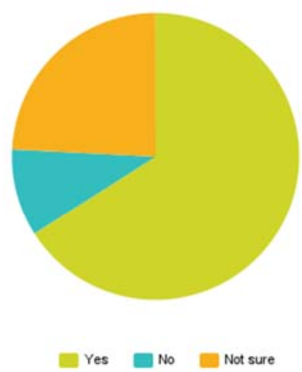
The 1,111 NAIFA members who responded to the survey provide a number of important retirement planning products for their clients. Respondents each complete an average of 153 fixed annuity sales, 627 variable annuity sales, 3,895 401(k) plan rollovers and 3,235 IRA rollovers in a year.

**About NAIFA:** Founded in 1890 as The National Association of Life Underwriters (NALU), NAIFA is one of the nation's oldest and largest associations representing the interests of insurance professionals from every Congressional district in the United States. NAIFA members assist consumers by focusing their practices on one or more of the following: life insurance and annuities, health insurance and employee benefits, multiline, and financial advising and investments. NAIFA's mission is to advocate for a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of its members.

**Facts at a Glance**

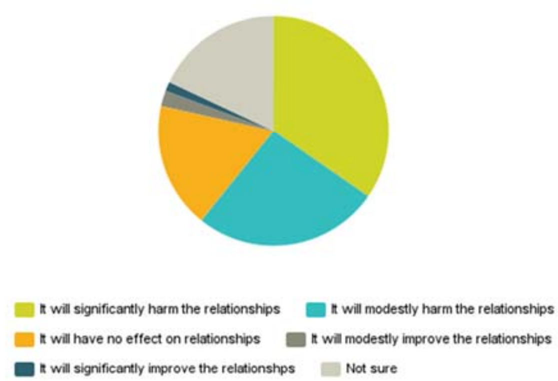
**Q14 Do you anticipate that the DOL rule would result in you losing clients, because clients are unwilling to sign a contract, because you would no longer be able to serve medium or small accounts, or for other reasons?**

Answered: 1,046 Skipped: 65




**Q10 If the DOL regulation requires you to sign a contract with existing clients before providing them further advice or recommendations, in general how do you think this will affect your relationships with those clients?**

Answered: 1,056 Skipped: 55




**Q9 Do you anticipate that the cost of your E&O coverage will go up if the proposed Department of Labor regulation requires you to be a fiduciary when dealing with retirement-planning clients?**

Answered: 1,056 Skipped: 55