
Broker-dealers expect DOL rule to prompt exodus of advisors: LIMRA

By Editorial Staff *Thu, Sep 29, 2016*

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If advisors retire, who will advise retirees?

Broker-dealers expect at least some of their advisors to retire instead of change their business practices in response to the Department of Labor’s fiduciary rule, according to a survey of broker-dealers by the LIMRA Secure Retirement Institute.

More than half (54%) of the broker-dealers surveyed by LIMRA believe some of their advisors will retire. The DOL rule, among other things, prohibits advisors from selling commissioned products to IRA clients unless the advisors pledges to act in the clients’ best interest and disregard their own or their firms’ financial interest.

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Broker-dealers also expect advisors—the broker-dealers surveyed didn’t specify whether they were referring only to registered reps of broker-dealers or to other types of intermediaries—to serve fewer middle-class retirement clients in the future, because the account balances are likely to be too small to generate enough revenue on a percentage-of-assets basis. Critics of the DOL rule have long predicted this outcome.

“Because the rule increases advisors’ liability, B-Ds also expect their advisors to stop providing advice to clients with lower IRA account balances,” the release said. “At a time when more Americans need access to advice, it appears that the new DOL rule may actually reduce access for middle income consumers.”

Supporters of the DOL rule have countered that middle-income consumers were never well-served by the broker-dealer industry, or that they often received conflicted sales recommendations in lieu of unconflicted advice, and that online “robo” advice providers like Vanguard, Financial Engines or Betterment will serve them just as well and at lower cost.

The Institute found that eight in 10 broker-dealers plan to employ both the PT 84-24 or the Best Interest Contract exemptions allowed under the new rule. PT 84-24 allows advisors to

continuing selling fixed deferred and fixed income annuities as usual, without having to satisfy the BIC exemption. Under the BIC exemption, which allows properly licensed advisors to sell variable or indexed annuities, advisors must pledge to act only in the client's interest.

Nearly three quarters of broker-dealers told LIMRA they will use so-called fee leveling/fee offset to avoid the variable compensation methods prohibited by the rule. Overall, firms said they will employ multiple strategies in order to ensure compliance.

Two thirds of broker-dealers expect consumers to bear the increased cost of compliance and nine in 10 believe that the rule will spur consolidation of the brokerage industry.

"Smaller firms may be unable to afford the high cost of implementing the changes needed to comply with the rule and some may opt to merge with their larger counterparts" that can leverage their economies of scale, Krozel said.

Most broker-dealers expect their risk of litigation to be exacerbated by the DOL rule and expect the rule to force changes in advisor compensation practices and structures. The cost of compliance will require changes in business practices and reporting, they agreed.

"The feedback we received from the B-Ds is aligned with responses from carriers and advisors," Krozel observed. "Intentional or not, the DOL fiduciary rule will change the landscape of the retirement market for decades."

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