Inside the Beltway, Disinformation Reigns

By Kerry Pechter *Thu, May 28, 2015*

An article in The Hill, the respected Washington newspaper and website, has gotten the DOL's conflict of interest proposal all wrong. It doesn't even mention rollover IRAs.

Everyone who follows Washington closely presumably reads *The Hill* and relies on it to get the straight story. But an **article** published yesterday in that Beltway Bible about the Department of Labor’s conflict-of-interest proposal gave what I thought was a distorted view of the situation.

The first paragraph read:

“The Obama administration is forging ahead with new regulations for financial advisers, defying critics who warn the rules would make it harder for low-income people to obtain investment advice.”

Since the proposal is in a comment period, and will be subject to a public hearing and an additional comment period in the coming months, I don’t know what “forging ahead” is supposed to mean. Was the DOL supposed to have surrendered by now?

Sadly, the reporter has picked up the financial industry’s spin by suggesting that the conflicts-of-interest rule is about denying poor folk access to advice about their money. No matter how many times this talking-point gets repeated, it isn’t more than about two percent true. The robo-advisers and direct-providers like Fidelity, Schwab and Vanguard are going to fill the supposed advice gap. They already do. (A Fidelity vice president is quoted in *The Hill*’s story as favoring the DOL proposal. “Bring it on,” she said.)

The Hill article also perpetuates the fiction, which even the Department of Labor maintains for some reason, that this controversy concerns “advice.” The proposal isn’t really about advice. The rule, if passed in its current form, would have little or no effect on fee-based registered investment advisers and even less on fee-only certified financial planners.

The rule is about sales. It would discourage transaction-driven registered reps and insurance agents from accepting non-transparent third-party compensation for selling certain products. But even in its current form, the proposed rule isn’t very strict. It doesn’t ban commissions. It merely requires disclosure. (Does disclosing a conflict make it go away? I don’t think so.)

The Hill says advisers would have to disclose “how they receive payments off the sale of financial advice.” That’s not exactly true. They receive payments for selling products, not for selling advice.

Worst of all, the article omits any mention of IRA rollovers. This controversy is all about rollovers.

For years, the regulators and the financial services industry have watched a multi-trillion-dollar tsunami of Boomer savings move from cloistered 401(k) plans to retail rollover IRAs. The industry has been obsessed with “capturing” that money and exploiting the opportunity. The regulators is horrified at the idea of all that money, which it considers personal pension money, being lured into expensive products that will reduce retirees’ income.

A fog of disinformation continues to obscure the real issues—a fog that emanates from the administration, the industry and, evidently, *The Hill*.

The DOL is not the biggest threat to those who merely sell products. As I argued in last week’s issue of *RIJ*, the biggest threat to conflicted, labor-intensive, expensive distribution models is the emergence of cheap, objective competition from the digital advisory channel, aka robo-advice. The DOL, with its suggestions for timid half-measures like disclosure and “best interest” standards, seems relatively—relative to the Internet hordes, that is—sympathetic to the industry’s predicament.

That said, the government is messing things up. I don’t know why the president uses loaded expressions like “bilking” in his characterizations of the financial industry, even when referring only to its more predatory members. Why vilify or antagonize the people with whom you’re trying to negotiate? I guess that’s life inside the Beltway.