

PROTECTING WORKERS FROM CONFLICTS OF INTEREST AND INCREASING ACCESS TO HIGH-QUALITY INVESTMENT ADVICE

Along with the release of the Annual Report of the White House Task Force on the Middle Class today, Vice President Joe Biden announced new protections for workers with 401(k)s and IRAs. These new protections are an important step in the Administration's efforts to make the retirement system safer for middle-class workers and families.

The Department of Labor is proposing new regulations that will protect workers from conflicts of interest and expand the opportunities for employers to offer workers the expert investment advice they need to make the best possible decisions about how to save their hard-earned wages.

Many workers with 401(k)s would benefit from professional advice that could help them make better investment decisions and get the most out of their retirement savings. However, strong safeguards are needed to make sure that these investment advisors are really working to help workers maximize the returns on their investments, not to maximize the profits for the financial institutions they work for by steering workers into funds with high fees and expenses.

These new regulations would provide important safeguards while preserving workers' access to high-quality investment advice by allowing financial institutions to provide such advice only if they meet conditions that are designed to protect workers. Clarifying these rules will also encourage plan sponsors to provide objective investment advice to workers, helping them avoid common errors that undermine retirement security. This proposal would let financial institutions give workers investment advice if they abide by one of two rules to protect workers:

- **Advisors are not compensated for steering workers into investment choices that are more profitable for financial institutions.** Some kinds of investments are more profitable for financial institutions than others, but those investments may not be the best ones for workers. As a result, if investment advisors get a commission or other compensation for steering workers into investment options with high fees and expenses, they face conflicts of interest that can undermine the reliability of their advice. This proposed regulation prohibits not just the individual providing advice, but also his or her coworkers, their employer, and its executives from receiving compensation for pushing workers into profitable investment options. Preventing this practice ensures that workers get investment advice that's good for their retirement savings, not good for corporate profit margins.
- **The advice is based on an objective computer model that has been certified by an independent expert.** Alternatively, investment advisors may give workers advice based on computer models that have been certified to be unbiased by independent experts. These models must also meet certain other requirements, including requirements that they consider the risks, returns, and fees of different types of investments and that they must not inappropriately favor investments that generate income for the advisor or an affiliate.

Because these computer models must rely only on objective data about different investment options and about a worker's investment goals, they provide a safeguard against attempts to steer workers into investment options with high fees and expenses.

By protecting workers against conflicts of interest while encouraging high-quality investment advice that can help workers get the most out of their retirement savings, these regulations provide an important step in assuring a safer and more reliable retirement saving system for America's workers.

The Department of Labor will make this proposed regulation available for public comment until May 5, after which the Department will issue a final rule. Once that final rule takes effect, this regulation will apply to all financial institutions that both provide investment options like 401(k)s to employers and offer financial advice to their employees, extending new protections to tens of millions of workers across the country.