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New rules to shine more light on hidden retirement fees

By Susan Tompor (excerpt)
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When you pull up to the pump, you know the price you're going to pay for a gallon on gas. When you shop for milk, you glance at the supermarket shelf to know how much cash you'll hand over at the register.

But how much did it cost you to have someone manage your retirement savings accounts?

Retirement savers — who increasingly don't have the security of a pension — too often have been left in the dark about the kind of money they're handing over for commissions, advice or high-cost products. Some would argue that a major part of the financial services industry is built on hiding all those fees.

On Wednesday, the U.S. Department of Labor finalized a rule some advocates predict could save consumers tens of thousands of dollars over their lifetimes. The proposal, which has been six years in the making, is complicated but aims to address conflicts of interest involving financial advice and mandate more disclosures of costs.

Don't let words like "fiduciary" standard let your eyes glaze over. This is a very big deal for retirement savers — one of the biggest deals in more than 40 years when the Employee Retirement Income Security Act went into place.

The goal is to make it easier for middle-class families to save money so that they can retire before reaching age 75 or 80. After all, how can you make a rational decision about buying anything, if you don't know the cost? …

What is the new rule?

The Department of Labor has proposed a ruling that will require all investment advisers to act as a "fiduciary" for all retirement accounts.

"It levels the playing field," said David Kudla, CEO of Mainstay Capital Management in Grand Blanc.

Kudla said some investors may not even know that there is a difference in standards. Brokers operate under a "suitability standard" where the broker must recommend a product that's suitable given the person's age or level of wealth.

For example, Kudla said a broker wouldn't meet that suitability standard if he or she recommended that a 90-year-old with a limited income put all of his or her IRA money into high-risk social media stocks.

While that's a good protection, the federal government is arguing it's not enough to protect retirement savers.

A "fiduciary" standard requires an adviser to act impartially and provide advice that is in their clients' best interest.

In addition, the new proposals from the Department of Labor would require all fees on retirement accounts to be clearly communicated to clients.

Under what's called a "Best Interest Contract" exemption, firms and individual adviser would still be able to receive commissions and revenue-sharing payments. But the firm would be required to provide advice in the client's best interest, charge "only reasonable compensation," and avoid misleading statements, according to the White House news release on the changes.

Perhaps, not surprisingly, firms that operate under a fiduciary standard already are applauding the Department of Labor's efforts.

Brokerage firms and others who operated under the suitability rules pushed back significantly when it came to the proposed rule changes. …

…The idea behind the new rule is to offer more transparency. …