EMPLOYEE BENEFITS SECURITY ADMINISTRATION
UNITED STATES DEPARTMENT OF LABOR

Updating Our **Retirement Protections**

dol.gov/ProtectYourSavings

What is the problem?

Outdated rules do not sufficiently protect retirement savings, and 401(k) plan participants and Individual Retirement Account (IRA) investors are particularly at risk.

Under the current rules, financial advisers can often get fees for recommending particular retirement investment products, even though those products may not be the best option for their customer. Clients are sometimes unaware of these payments because they can be hidden in fine print or not disclosed at all. As a result of these conflicts of interest, millions of Americans lose billions of dollars in retirement savings every year.

Advisers may have a conflict of interest if they get higher compensation for recommending a certain investment product that's not the best option for the investor. Their recommended investments may perform worse or have higher fees—or both—which costs some responsible, middle-class families tens of thousands of dollars in retirement savings over the course of a career.

Who is at Risk?

Millions of America's workers and retirees are affected. 401(k) plan participants and IRA investors generally have to make their own decisions about investing their retirement savings and often depend on expert advice – but that advice may benefit the adviser at the expense of the customer, without the customer ever knowing. Conflicted investment advice affects participants who seek advice about investing their retirement savings and employers who hire advisers to assist them in making decisions about the retirement plans they offer their employees. Conflicted advice is particularly problematic when participants roll over distributions of retirement savings from employer plans, such as 401(k)s, into IRAs or from one IRA to another because of the large amounts of savings at stake in that decision. In 2012, America's savers rolled more than $300 billion into IRAs, and by 2018 they are expected to roll over as much as $467 billion.

Why Haven't the Laws Kept Up?

In 1974, Congress passed a law to protect retirement savings. That law authorized IRAs, but 401(k)s weren't even created until 1978. Today, America's workers have more than $7 trillion invested in IRAs and more than $5 trillion in 401(k)-type plans, vastly more than remains in traditional pensions. Unfortunately, the law protecting America's retirement savings hasn't kept up with these market trends.

People saving through 401(k)s and IRAs are particularly dependent on their financial advisers, but a 1975 rule created loopholes that allow people to give them advice without being held to the higher standard established by the original law.

The recent financial crisis demonstrated that lax regulations combined with complicated mortgage products can cause hardships for millions. Similarly, the effort to increase consumer protections for retirement savings is long overdue.

What's the Solution?

On February 23, President Obama called on the Department of Labor and Secretary Tom Perez to initiate an effort to update these rules to better protect responsible, middle-class savers from conflicts of interest. At their core, the updates would apply simple, commonsense standards ensuring that retirement advisers put their clients' best interest first when giving retirement investment advice. In the coming months, the Department of Labor will issue a Notice of Proposed Rulemaking (NPRM) that will then be made available for public comment.