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Edward Jones

August 7, 2017

U.S. Department of Labor - The Office of Exemption Determinations
Employee Benefits Security Administration
Attention: D-11933
200 Constitution Avenue, N.W., Suite 400
Washington, DC 20210

Submitted Electronically -- EBSA.FiduciaryRuleExamination@dol.gov

Re: RIN 1210-AB82 – Request for Information Regarding the Fiduciary Rule and Prohibited Transaction Exemptions

Ladies and Gentlemen:

Edward D. Jones and Co., L.P. ("Edward Jones") appreciates the opportunity to respond to the Request for Information ("RFI") regarding the Fiduciary Rule and its associated Prohibited Transaction Exemptions ("Fiduciary Rule" or "Rule").[1] This comment letter addresses the remaining questions in the RFI not already addressed in our previous letter of July 21, 2017. We also urge the DOL to review and consider the comments submitted by the firm on July 21, 2015 and April 17, 2017, which are attached.

We applaud the DOL for issuing the RFI, and for conducting a thorough review of the Fiduciary Rule. President Trump's Memorandum raises important questions that need to be thoroughly analyzed by the DOL to assess the impact of the Rule on retirement savers and their access to investment advice and information.[2] As Secretary Acosta recently stated "Washington should regulate only when necessary. Limiting the scope of government protects space for people to make their own judgments about what is best for their families."[3] We commend the Trump Administration and Secretary Acosta for focusing on the need to empower investors to save for retirement.

We consistently have offered comments throughout the regulatory process highlighting the practical challenges facing retirement savers on account of the Rule to help the DOL understand how to craft a revised Rule that best serves the interests of these investors. We again commend to the DOL an Oliver Wyman

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[1] 82 Fed. Reg. 31,278 (Jul. 6, 2017).

[2] *See*, President's Memorandum, 82 Fed. Reg. 9,675 (Feb 7, 2017).

[3] See, 'Fiduciary' Rule to Take Effect June 9 With No Further Delay by Secretary Alex Acosta, Wall Street Journal (May 22, 2017).

Study titled "The Role of Financial Advisors in the U.S. Retirement Market"[4] demonstrating the important role financial advisors play in helping investors save for retirement security and highlighting the need for meaningful changes to the rule to preserve investor access to advice. We previously referenced this study in our July 21, 2015 comment letter. The Oliver Wyman Study demonstrates that advised individuals, segmented by age and income, have a minimum of 25% more assets than non-advised individuals and, in the case of individuals 65 or older with $100,000 or less in annual income, advised individuals have an average of 113% more assets than non-advised investors. However well-intended the DOL's efforts to date, we continue to believe the Rule must be significantly modified to preserve retirement savers choices and access to quality advice. Our comments below are directed to improving the Rule to increase retirement security for all retirement savers.

The Fiduciary Rule Limits Investor's Retirement Savings Options and Access to Advice

Question 3 in the RFI asks whether the Rule is "appropriately balance[ed]" or whether it is limiting access to "a wide range of products that can meet each investor's particular needs."[5] Unfortunately, the Rule does not appropriately balance its requirements with the needs of investors and reduces access to meaningful advice that would otherwise help investors reach their long-term goals.

The reality is that the rush to implement the Rule has not provided the time necessary for the DOL, the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA") and other regulators to address the Rule's problems. The challenges associated with implementation will be made much worse if the additional conditions of the BIC Exemption take effect at the end of the Transition Period. The restrictions imposed by the additional conditions of the BIC Exemption after January 1, 2018 will further limit solutions available to investors and choice in how to pay for these services.

Investors are best served by having access to a broad array of different investment solutions. However, the conditions of the BIC Exemption that have not yet taken effect are very rigid and limit investor choice and access to quality advice. In fact, the BIC Exemption conditions that have not yet taken effect do nothing to address the quality of the advice provided—the already applicable best interest requirement of the Impartial Conduct Standards does this. Instead, the additional conditions of the BIC Exemption focus on how an advisor is paid

[4] *See,* Oliver Wyman, "Role of Financial Advisors in the U.S. Retirement Market", July 10, 2015.

[5] *See,* 82 Fed. Reg. at 31,279.

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mandating the use of the ill-defined "neutral factors" as well as complex and ineffective disclosures - the quality of the advice is not even considered. Without changes, the BIC Exemption will result in increased costs and limited product and service offerings for retirement savers with no apparent benefit.

Retirement savers will best be served by replacing the additional conditions of the BIC Exemption with a streamlined exemption that comports with current and future SEC and FINRA actions. We urge the DOL to state in such an exemption that compliance with an SEC or FINRA standards is compliant with the best interest requirement of the Impartial Conduct Standards. This would ensure there is no conflict between simultaneously applicable standards.

In the RFI, the DOL also asks several questions about new market innovations in investment product design and client service models that might form the basis for new prohibited transaction exemptions, including “clean” shares, “T” shares, and fee-based annuities.[6] As we provided in our prior attached comment letter, the challenges presented by the conditions in the BIC exemption have resulted in the mutual fund industry considering the development of these new share classes.

Product-specific exemptions for market innovations, such as "clean" shares or T-shares are of limited utility as they only provide a narrow snapshot of the current market environment. New ideas would require new regulatory action to develop new exemptions, an inefficient way to regulate a dynamic system in which new and better ideas to serve retirement investors may emerge at any time. Rather than attempting to favor certain investment solutions over others in a rapidly evolving marketplace, we urge the DOL to craft a principle-based exemption that will empower investors and promote marketplace innovation to ensure the greatest choice in retirement savings alternatives.

The Impartial Conduct Standards Provide the Protections Intended by the DOL

The DOL determined in its April 7, 2017 regulation establishing the Transition Period that the vast majority of the Rule’s benefits to retirement investors is derived from compliance with the Impartial Conduct Standards.[7] The DOL asks in the RFI for an assessment of the impact of the Impartial Conduct Standards, and whether additional incentives are necessary for compliance with their requirements.[8]

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[6] *See*, RFI Questions 2, 7, 8, and 9.

[7] *See,* 82 Fed. Reg. 16,907 and 16,909-10 (April 7, 2017).

[8] *See*, RFI Questions 5 and 6.

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As the DOL previously stated, "Because of Firms' anticipated efforts to satisfy the Impartial Conduct Standards . . .the Department believes that most . . .of the investor gains predicted in the 2016 RIA ("Regulatory Impact Analysis") for the transition period will remain intact." [9] The Impartial Conduct Standards serve the DOL's purpose of protecting investors without imposing the additional burdensome and complex requirements mandated by the remaining BIC Exemption conditions. For example, the complex disclosure requirements that become applicable on January 1, 2018 would require a level of detail not currently available in the industry.

We believe the Impartial Conduct Standards are consistent with the DOL's intent and render the incremental "benefits" of the additional conditions of the BIC Exemption virtually non-existent. The DOL should eliminate all other conditions of the BIC exemption, including the ill-defined "neutral factors" and complex disclosure requirements. We anticipate that this would also provide the DOL with the opportunity to coordinate with the SEC and FINRA on developing a workable, uniform best interest standard based upon agreed principles.

The DOL Should Meaningfully Coordinate with the SEC and FINRA on a Uniform Best Interest Standard

In RFI Question 11, the DOL asks whether a streamlined exemption could coordinate with fiduciary standards developed by the SEC, FINRA and other regulators.[10] This is a very important issue for retirement savers, because securities rules and the Fiduciary Rule will apply simultaneously to many advisors. Edward Jones strongly believes that the DOL's actions in revising the Rule should be informed by, and coordinated with standards adopted by the SEC and FINRA.

It is clearly not workable for investors to have varying standards of care apply to their retirement and taxable accounts. The current Rule was not adequately coordinated with other regulators, resulting in conflicting regulatory structures, and this has created unnecessary costs and confusion for investors.

The SEC, FINRA, state insurance commissioners and other regulators have considerable expertise and resources focused on promoting investor protection through rulemaking, guidance and ongoing oversight of the financial services industry. The DOL should coordinate with the SEC and FINRA to develop a uniform best interest standard for investors that applies to all retirement and taxable accounts.

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[9] *See,* 82 Fed. Reg. 16907 (April 7, 2017).

[10] *See*, 82 Fed. Reg. at 31,280.

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We commend to the DOL SEC Chair Clayton's recent remarks that it would be "extremely disappointing" if a best interest standard reduced choice for investors. The standard should preserve investor options to a wide range of retirement solutions and choice in how to pay for these services. In addition, SEC Commissioner Michael Piwowar's recently called for the DOL to "redouble its efforts to work with the Commission and its expert staff, who may bring to bear our decades of experience in enforcing multiple disclosure-based regimes."[11]

Secretary Acosta and Chairman Clayton have publicly indicated that the DOL and SEC wish to coordinate their respective efforts to develop a best interest standard. We commend the Secretary and Chairman for recognizing the need to provide consistency and clarity, but stress that it is imperative for the DOL to provide a material delay of the January 1, 2018 applicability date to allow for a meaningful opportunity to coordinate with the SEC and FINRA.

The Grandfather Provision is Important and Should be Improved to Better Serve Investors

The DOL appropriately included a grandfathering provision in the Rule to permit investors to hold existing IRA assets. While the inclusion of a grandfather provision was beneficial and necessary for existing retirement savers, the DOL has imposed overly prescriptive requirements that significantly undermine the utility of this provision.

We urge the DOL to consider a broader grandfather provision that would fully-exempt from the rule all investments in accounts entered into prior to and after June 9 and prior to January 1, 2018 or any delayed applicability date. The grandfather provision should allow continued ongoing contributions of new money into the account and unfettered ongoing advice, including on exchanging mutual funds, during the life of the account. We believe these changes to the grandfather provision will minimize investor confusion and enhance the utility of the grandfather provision to better serve the interests of investors.

Advice Regarding Contributions Should Not Be Fiduciary Advice Under the Rule

In the RFI, the DOL asks "whether recommendations to make or increase contributions should be excluded from the definition of investment advice?"[12]

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[11] *See,* Comment Letter in Response to the DOL's "Request for Information Regarding the Fiduciary Rule and Prohibited Transaction Exemptions by Commissioner Michael S. Piwowar (July 25, 2017).

[12] *See,* RFI Question 14.

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Recommendations regarding whether and how much to contribute to qualified accounts should be excluded from the definition of fiduciary advice. We commend the DOL for the August 4, 2017 FAQ which indicates that recommendations to make or increase contributions are not fiduciary acts, but in light of prior contrary guidance from DOL request further clarification on this point. For example, investors who are comprehensively planning for retirement security and have both qualified and non-qualified accounts may not receive the necessary advice because the Rule is unclear whether the new guidance would apply to recommendations to contribute to the non-qualified account versus the qualified account. This concern is not addressed by the examples in the guidance from the DOL and should be clarified.

The Rule should also be clarified to exclude advice related to investment of RMD proceeds. The Fiduciary Rule currently applies to advice to take a distribution from a retirement account and to invest the proceeds. However, this should not apply in the case of a Required Minimum Distribution ("RMD"). The law requires an RMD; the advisor is not recommending the distribution. The position taken by the DOL in guidance issued in January (that the Rule applies to advice to invest the proceeds even though no recommendation was made to take the distribution) leads to the odd result that a recommendation on how to invest the proceeds of an RMD is subject to the Rule if the recommendation precedes the distribution, but not if the recommendation is made after the distribution occurs.[13] This illustrates that the DOL's guidance is "form over substance" and will serve only to confuse retirement investors, potentially limiting the advice they may receive.

The DOL Needs to Consider the Impact on Retirement Savers of Concerns Raised in our July 21, 2015 and April 17, 2017 Comment Letters that are not Addressed in the Rule.

We have attached the firm's July 21, 2015 and April 17, 2017 comment letters which include a more detailed discussion of the following concerns:

- The DOL's narrow definition of "education" and overly-broad definition of "investment advice" will result in loss of guidance and investors at a time when retirement savings rates are already troublingly low. Financial advisors should be allowed to provide specific investment examples that would give an investor meaningful and useful information without giving rise to a fiduciary relationship. We recommend the DOL consider what other information could be provided to investors about specific investments that would meet the DOL's objective of mitigating conflicts of interest without rendering these important conversations meaningless to investors.

[13] *See,* Conflict of Interest FAQs (Part II -Rule), Q4., January 2017.

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- The lack of a workable "seller's carve-out" effectively prohibits financial advisors from marketing and promoting retirement services to investors. The DOL attempted to preserve this exception through the so-called "hire me" exception, however the rule makes clear that if a financial advisor provides examples of investments and/or retirement saving strategies this activity would be considered fiduciary advice, likely triggering a prohibited transaction. Investors must retain the ability to have open dialogue with their financial advisors about the products and services that are available to meet their retirement savings needs.

- The rule's rollover provisions will make it more difficult for investors to receive meaningful guidance from financial advisors about the options available when changing jobs, heightening the risk that investors will cash out, and not use these assets to meet their long-term retirement savings needs.

- The rule will significantly limit the ability of small businesses to establish and maintain retirement plans by curtailing the ability of financial advisors to provide necessary education and guidance.

We believe all of these concerns need to be addressed by the DOL as part of the ongoing review of the rule.

Conclusion:

Edward Jones appreciates the opportunity to provide comments in response to the RFI. We are committed to working with the DOL to develop a final rule that is in the best interest of investors. The changes we recommend here will significantly improve the quality, affordability and accessibility of advice for retirement savers.

If you have any questions regarding the comments contained in this letter please contact me at 314-515-9711.

Sincerely,

Jesse Hill
Principal – Government and Regulatory Relations

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July 21, 2017

The Office of Exemption Determinations
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Submitted Electronically -- EBSA.FiduciaryRuleExamination@dol.gov

Re: RIN 1210-AB82 – Request for Information Regarding the Fiduciary Rule and Prohibited Transaction Exemptions: Response to Question 1 Relating to Extending the January 1, 2018, Applicability Date of Certain Provisions (the Transition Period)

Ladies and Gentlemen:

Edward D. Jones and Co., L.P. ("Edward Jones") appreciates the opportunity to submit comments on extending the January 1, 2018 applicability date of certain provisions in the Best Interest Contract Exemption; the Class Exemption for Principal Transactions in Certain Assets between Investment Advice Fiduciaries and Employee Benefit Plans and IRAs; and Prohibited Transaction Exemption 84–24 (collectively, the "Transition Period").

Our comments address the issues raised in Question 1 of the Request for Information ("RFI") regarding the extension of the Transition Period subject to the 15-day comment period ending on July 21, 2017. We look forward to providing more substantive comments on the real-world impacts of the rule on individual investors in response to the remaining questions in the RFI subject to the 30-day comment period ending on August 7, 2017.

Extending the Transition Period Protects Retirement Savers

Edward Jones strongly supports materially extending the Transition Period to protect retirement savers. As explained in more detail below, we believe such an extension is essential to avoid harming retirement investors who will otherwise face significant costs, service disruptions and additional confusion, exactly the issues the President ordered the Department to consider in deciding whether to rescind or revise the rule in his February 3, 2017 Memorandum.[1]

[1] See President's Memorandum, 82 Fed. Reg. 9675 (Feb. 7, 2012).

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While this RFI is an important procedural step in reviewing the effects of the rule, gathering accurate information based on real-world experience to inform the Department's decisions about how to proceed, it also highlights that the future of the rule remains uncertain and subject to change. The uncertainty for retirement savers will be made significantly worse if the Transition Period is not extended, as we comply with a set of requirements on January 1, 2018 that may change again shortly thereafter as the Department and other regulators continue to react to the practical problems created by rushed implementation of the rule.

Accordingly, we request that the Department extend the Transition Period to the later of July 1, 2019 or one year after the promulgation of any material amendments to the rule to allow for an orderly transition to the new regulatory environment. This extended Transition Period will provide the opportunity for the Securities and Exchange Commission ("SEC") and FINRA to meaningfully coordinate with the DOL on the creation of a uniform best interest standard of care for investors. We have long supported a uniform standard and believe the DOL and investors would greatly benefit from leveraging the SEC's and FINRA's expertise on investor protection to develop a best interest standard that is harmonized with the existing framework of rules and regulations imposed on financial services providers.

Extending the Transition Period Provides Significant Benefits to Retirement Savers

Question 1 of the RFI asks several questions regarding the effects of extending the Transition Period.

With respect to retirement savers, the RFI asks whether an extension "would benefit retirement investors by allowing for more efficient implementation responsive to recent market developments?" or "otherwise be advantageous…to investors?"[2]

The answer to these questions is, unequivocally, yes. The Transition Period has prevented imposing the significant costs and restrictions on retirement savers that will result from the application of the unnecessarily complex prohibited transaction exemptions, such as the "full" Best Interest Contract Exemption ("BIC Exemption"). If the "full" BIC Exemption becomes applicable on January 1, 2018, it will diminish access to retirement advice, services and products for many investors. As discussed below, an extended Transition Period will also provide additional time to evaluate product innovations in the marketplace to better serve retirement savers.

[2] 82 Fed. Reg. 31279 (Jul. 6, 2017).

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Time Needed to Develop Complementary Regulation and Foster Innovation

The Department has promulgated a rule that fundamentally changes the way investment advice, products and services may be provided to retirement investors. In particular, many of the changes to investment products and services necessary to make the "full" BIC Exemption workable require coordination with other regulatory agencies and organizations, such as the SEC, FINRA or state insurance commissioners. Given the overlapping laws and regulations governing various financial services providers, innovations necessary to best serve retirement investors in the new regulatory environment often require other regulatory entities to review and approve such innovations, a process that takes time.

In the RFI the Department has asked a series of questions about new share classes for mutual funds and new fee-based annuity products, but we believe there is simply not enough time for many of these important and practical questions to be resolved by January 1, 2018. In the release delaying the applicability date of the rule, the Department recognized changes in the marketplace from T-shares to clean shares and should anticipate even further market innovations during the Transition Period. The Department must be careful in this rapidly evolving marketplace not to tip the scales in favor of certain investment solutions over others – investors should be empowered to select the investment solution that best meets their retirement savings needs.

We also believe it is critical for the Department to materially extend the Transition Period to provide more time to reassess and clarify significant ambiguities in the current rule that have resulted in increased costs and limited product and service offerings for retirement savers. For example, it is still unclear how to apply the so-called "neutral factors" to determine the compensation that can be received when offering transaction-based services.

Secretary Acosta and Chairman Clayton have publicly stressed that the Department and the SEC wish to coordinate their respective efforts regarding a fiduciary standard. While we very much support such coordination and applaud the Secretary and the Chairman for recognizing the need to provide consistency and clarity, we are concerned that, absent a material delay of the January 1, 2018 applicability date, the opportunity for meaningful coordination between the agencies will be lost.

Minimize Investor Confusion and Inefficient Changes

A failure to extend the Transition Period will harm retirement investors through the anticipated multiple rounds of changes to service offerings and products caused by continued changes in the rules promulgated by the Department, SEC, FINRA, and other regulatory agencies. For example, as the Department continues reviewing the rule as directed by the President, it may well conclude that it will materially change the BIC Exemption after the Transition Period. We support changes to the BIC Exemption, but

believe even the possibility of changes without an extension in the Transition Period will harm retirement investors who will see expensive and confusing revisions to their service offerings and constantly changing line-ups of available investment solutions.

If the Transition Period is not extended and the "full" BIC Exemption becomes applicable, Edward Jones will again have to make extensive changes to client offerings. This is because the restrictions and requirements regarding compensation under the "full" BIC Exemption are not yet achievable with respect to all the products and services we currently offer customers. Even if we use the ill-defined "neutral factors" analysis under the BIC Exemption, we may not be able to offer mutual funds to all of our customers in all account types.

The evolving changes to the rule have not only lead to significant investor confusion, but also challenges in developing the systems and processes to operationalize compliance with the rule. We have worked diligently to put systems and processes in place to serve our clients, but have done so without the necessary clarity or certainty as to what aspects of the rule may remain in effect.

We believe the Department must materially extend the Transition Period to resolve ambiguities in the rule, meaningfully coordinate with other regulatory agencies, assess the effectiveness of measures implemented on June 9th, and provide a reasonable period of time for the development of fully-automated, well-integrated systems and processes that best serve the needs of our clients.

Costs and Benefits of Extending the Transition Period

Question 1 also asks whether extending the Transition Period would carry any risks and what the costs and benefits of an extension would be.

As discussed above, we believe there are significant benefits to retirement savers from extending the Transition Period and believe there are little, if any, risks involved in doing so.

As the Department itself recognized in its April 7, 2017 rule establishing the Transition Period, the vast majority of the benefits to retirement investors come from the fiduciary obligations in the rule's Impartial Conduct Standards that became applicable on June 9th. In evaluating the effects of the Transition Period, the Department concluded that "If advisers fully adhere to these requirements [the Impartial Conduct Standards], affected investors will generally receive the full gains due to the fiduciary rulemaking."[3] In considering whether there was any significant risk of non-compliance by advisers, the Department concluded that it "expects that advisers' compliance with the Impartial Conduct Standards during the period between June 9, 2017 and January 1, 2018, will

[3] 82 Fed. Reg. 16909 (Apr. 7, 2017).

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be substantial…"[4] The Department summarized this conclusion by noting that "Because of Firms' anticipated efforts to satisfy the Impartial Conduct Standards…the Department believes that most…of the investor gains predicted in the 2016 RIA for the transition period will remain intact."[5]

At Edward Jones we have strived in good faith to comply with the Impartial Conduct Standards by designing and implementing new training programs, updating account agreements, reevaluating client pricing and product offerings, amending agreements with product manufacturers, changing compensation structures and creating the supervisory structures and compliance procedures necessary to manage these vast changes.

We have observed similar compliance efforts across the industry, and believe that the Impartial Conduct Standards are governing advice as the Department anticipated. Therefore, as the Department has recognized, there is little, if any, risk in extending the Transition Period.

Conclusion

Consequently, we believe the benefits to retirement investors of extending the Transition Period far outweigh the potential costs. Rushing to implement the rule will result in further reductions in retirement services and investment products available to retirement savers, increased costs, more confusion, and more rounds of unnecessary change as the marketplace evolves and regulatory requirements are modified in the near term.

Edward Jones appreciates the opportunity to provide comments in response to the RFI. We urge the Department to materially extend the Transition Period, and to work with the SEC and FINRA to significantly rewrite the rule to adopt a uniform best interest standard of care that promotes investor protection, preserves investor choice and options, and ensures investors have access to meaningful assistance and guidance from financial professionals.

If you have any questions regarding the comments contained in this letter please contact me at 314-515-9711.

Sincerely,

Principal – Government and Regulatory Relations

[4] Id. at 16910.

[5] Id. at 16907.

OLIVER WYMAN

The role of financial advisors in the US retirement market

JULY 10, 2015

MARSH & McLENNAN COMPANIES

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About this report

There has been substantial public debate recently about the value of financial advice and the importance of financial advisors. Many people continue to believe financial advisors perform a critical service helping individuals and small businesses successfully navigate complex financial challenges. Others have sought to portray financial advisors as self-interested salesmen and saleswomen, who provide conflicted advice to sell high cost products. Against this background, Oliver Wyman was engaged to perform a rigorous investigation of the role of financial advisors in the US retirement market, and quantify differences in investing behavior and outcomes between advised and non-advised individuals.

In this report, Oliver Wyman focuses on understanding the impact of financial advisors on individuals saving for retirement and small businesses setting up and maintaining a workplace sponsored retirement plan. Through a combination of proprietary research with individuals and small businesses and analysis of unparalleled datasets from IXI (a division of Equifax), we found that advised individuals and small businesses are better off in many of the ways that matter most for superior investing outcomes.

The benefits financial advisors provide are now at risk. On April 14, 2015, the Department of Labor issued its Conflict of Interest rule proposal, a replacement for the Definition of the Term "Fiduciary" rule proposal withdrawn in September 2011. The new Conflict of Interest Rule proposal, like its predecessor, would greatly expand the range of conditions under which an individual who provides investment services would be subject to ERISA fiduciary rules. The new proposal goes further in some respects. It explicitly defines promotional services provided to IRA account holders and small businesses as advice subject to ERISA fiduciary rules. While many stakeholders are analyzing the technical details and implications, this study considers the impact on individuals and small businesses that use financial advisors. We conclude that the newly proposed rule, while well intended, would have significant negative consequences for many retail investors if implemented with regard to the availability and cost of retirement savings help and support.

Further details on our research sources and methodology

1. Proprietary research, including two surveys of 4,393 retail investors and 1,216 small businesses;

2. Two datasets provided by IXI Services representing approximately 20% ($5.6 Trillion in 2013) of U.S. consumer invested assets on a household level and approximately 30% ($9.7 Trillion in 2013) of U.S. consumer invested assets on

3. an account level, respectively. This data is broken into different types of investment holdings for specific age, income and wealth segments as well as between individuals with, and without, a financial advisor;

4. Widely available secondary data sources.

Analyses based on data from the Oliver Wyman Retail Investor Retirement Survey and IXI invested assets datasets have been controlled for factors such as income, age, and assets to ensure they are representative of particular segments of the US retail investor population. In addition, responses from the retail investor survey were further scaled based on the 2013 Federal Reserve Survey of Consumer Finances to produce a representative sample of US retail investors. Unless indicated otherwise, small businesses are defined as businesses with established payroll and up to 100 employees. For additional information regarding our approach and market research, please refer to the methodology section of this document contained in the appendices.

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Executive summary

Oliver Wyman's study of the role of financial advisors in the US retirement system draws upon proprietary surveys of more than 4,300 retail investors and 1,200 small businesses, datasets from IXI Services (a division of Equifax), representing approximately 20% of U.S. consumer invested assets on a household level and approximately 30% of U.S. consumer invested assets on an account level, to provide a unique window into the value financial advisors provide to small businesses and retail investors for their retirement savings and investments needs.

With fewer individuals covered by corporate pension plans and the future of social security uncertain[1], individuals are increasingly responsible for providing for their own retirement. Workplace-sponsored defined contribution (DC) plans offer significant tax and other advantages to foster increased retirement savings. Indeed, 84% of individuals began saving for retirement via a workplace retirement plan.[2] When available, they are often the primary vehicle for personal retirement savings. However, over 19 million people who work for businesses with fewer than 50 employees do not currently have access to a workplace retirement plan.

We found that financial advisors are often a key advisor to small businesses, helping business owners through the process of setting up a defined contribution plan for their employees. When a financial advisor is involved, small businesses with 10-49 employees are 50% more likely to set up a workplace retirement plan. In addition, micro businesses (1–9 employees) that work with a financial advisor are nearly twice as likely to set up a plan.

Recognizing the growing importance of workplace DC plans, there have recently been a number of innovations that have doubtlessly improved the retirement outcomes for millions of people, including automatic enrollment and rebalancing features, better default investment options and in-plan advice. Yet, in spite of these improvements, many individuals continue to under-save (the average default contribution rate for plans with automatic enrollment is 3.4%[3] vs. the 6-10% recommended by many experts).

Many people are uncomfortable tackling retirement savings on their own. By one measure, 58% of households with under $100,000 in investable assets, and 75% of households with over $100,000 in investable assets solicit professional financial advice[4].

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[1] Social Security Administration, (http://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p111.html): "Benefits are now expected to be payable in full on a timely basis until 2037, when the trust fund reserves are projected to become exhausted…[at that point] continuing taxes are expected to be enough to pay 76 percent of scheduled benefits."

[2] Oliver Wyman Retail Investor Retirement Survey 2014

[3] Center for Retirement Research at Boston College, 'How Does 401(K) Auto-Enrollment Relate To The Employer Match And Total Compensation?', (http://crr.bc.edu/wp-content/uploads/2013/10/IB_13-14.pdf), October 2013

[4] 2013 Survey of Consumer Finances

Advised individuals place the largest value on financial advisors' support for financial planning, monitoring and providing trusted advice for their holistic financial needs.

In this regard, we found that many investors prefer to seek help from financial advisors outside their workplace in part to receive holistic advice on their assets. When changing jobs, individuals often choose to roll over assets into an IRA, primarily to consolidate assets and avoid leaving assets with a former employer. Just 29% of individuals own 401(k) plans exclusively, while nearly two-thirds hold assets outside their workplace in combination with an IRA or alone in one or more IRAs.

How well are financial advisors doing their job? On average, we found that individuals with a financial advisor have more wealth than non-advised individuals across all age and income levels studied. For example, we found that advised individuals aged 35-54 years making less than $100K per year had 51% more assets than similar non-advised investors. These are typical middle-class households in the middle of their accumulation years. Moreover, advised individuals are better investors across many key dimensions commonly associated with long term investing success. Specifically, we found that compared with individuals without a financial advisor, advised individuals

- Own more diversified investment portfolios
- Stay invested in the market by holding less cash and cash equivalents
- Take fewer premature cash distributions; and
- Re-balance their portfolios with greater frequency to stay in line with their investment objectives and risk tolerance.

The benefits financial advisors provide to their clients are now at risk. On April 14, 2015, the Department of Labor issued its Conflict of Interest rule proposal, a replacement for the Definition of the Term "Fiduciary" rule proposal withdrawn in September 2011. In our 2011[5] study reviewing the impact of the previously proposed rule, we concluded that the Department of Labor's proposed rule change was motivated by a laudable objective: to ensure a high standard of care for retirement plan participants and account holders with regard to the receipt of services and investment guidance, amid an increasingly complex financial marketplace. However, we found the proposed rule proposal was likely to have serious negative and unintended effects on the very individuals the change was supposed to help.

Many stakeholders are now analyzing the technical details of the newly proposed rule, and there is growing concern that the proposal would again result in unintended

[5] Oliver Wyman, 'Assessment of the Impact of the Department of Labor's Proposed "Fiduciary" Definition Rule on IRA Consumers', 2011

consequences, including limiting the ability of financial services firms and individual financial advisors to offer services to individual IRA holders and small businesses, as well as increasing investor costs due to new expenses associated with implementing the rule and transitioning many clients to a higher cost advisory model.

With regard to the impact on individuals, regrettably we reach the same overall conclusion as in the prior study. The proposed rule change is likely to have significant consequences that will adversely impact individual investors saving for retirement. For example, because the rule as proposed will take away the assistance small businesses most value, fewer new plans will be established and more plans will likely close[6]. This would directly impact the 19 MM individuals who work for small businesses with fewer than 50 employees, who do not currently have access to a workplace retirement plan and reduce the likelihood of their gaining access to a retirement plan in the future.

In the case of IRAs, if the rule is implemented as proposed[7]

- Millions of existing small balance IRA owners are likely to lose access to the financial advisor of their choice or any financial advisor at all
- The majority of others will face higher costs when providers shift brokerage accounts to advisory accounts
- Individuals without the help and support of financial advisors are less likely to open an IRA, leading to increased cash-outs when changing jobs and lower savings rates compared with advised individuals[8]
- Unadvised individuals are likely to carry excess portfolio risk due to less diversification and less frequent re-balancing.

* * *

[6] The new rule proposal explicitly excludes small businesses with fewer than 100 employees with employee-directed plans from the prohibited transaction exemption, otherwise made available to larger plans. This will force financial advisors to limit the services they currently provide to such small businesses in connection with establishing and maintaining retirement plans.

[7] See Oliver Wyman, 'Assessment of the Impact of the Department of Labor's Proposed "Fiduciary" Definition Rule on IRA Consumers', 2011

[8] Prior guidance from the DOL "held that recommendations to a plan participant to take an otherwise permissible distribution, even combined with a recommendation as to how to invest distributed funds, is not fiduciary investment advice." K&L Gates, DOL Re-Proposes Rule to make Brokers, Others, ERISA Fiduciaries (Apr. 27, 2015), http://www.klgates.com/dol-re-proposes-rule-to-make-brokers-others-erisa-fiduciaries-04-27-2015.

Retirement is too important to get wrong. We encourage key stakeholders from the financial services industry and regulators to join together to find workable solutions that preserve individuals' access to help and support from a financial advisor of their choice as well as the business model and fee structure that best meet their needs.

Key findings

Workplace sponsored defined contribution plans are critical retirement savings vehicles

- 84% of individuals began saving for retirement via a workplace retirement plan[9]
- Workplace sponsored defined contribution plans represent the primary or only retirement vehicle for 67% of individuals who save for retirement with a tax-advantaged retirement plan[10]

Financial advisors help individuals that work for small businesses gain access to workplace retirement plans

- 19 million individuals who work for small businesses with fewer than 50 employees do not currently have access to a workplace sponsored retirement plan
- Small businesses that work with a financial advisor are 50% more likely to set up a retirement plan (and micro business with 1-9 employees are almost twice as likely)

The majority of retail investors seek financial advice – many want personalized services from a professional financial advisor outside their workplace for financial planning and holistic advice and support on all their investment holdings

- 58% of households with under $100,000 in investable assets, and 75% of those with over $100,000 in investable assets solicit professional financial advice
- Individuals most value financial advisors for support with financial planning, monitoring and trusted advice for their holistic financial needs
- Many individuals currently have access to help and advice on their plan assets through workplace retirement plans; those that use it save 43% more on average. However, fewer than half of workplace retirement plan participants currently use in-plan advice features

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[9] Oliver Wyman Retail Investor Retirement Survey 2014

[10] Oliver Wyman Retail Investor Retirement Survey 2014

- Two-thirds of investors have retirement savings outside of employer-sponsored retirement plans, and many seek advice and support from a professional advisor outside their workplace for all of their investment holdings

Advised investors have more assets than those without a financial advisor

- We found that advised individuals have a minimum of 25% more assets than non-advised individuals

- In the case of individuals aged 35-54 years with $100,000 or less in annual income, advised individuals have an average of 51% more assets than non-advised individuals

Individuals with a financial advisor are better long term investors

- Advised investors have more diversified portfolios -- own twice as many asset classes, have more balanced portfolio asset allocations and use more packaged products for equity exposure compared with non-advised investors
- Advised investors stay more invested in the market – Advised individuals hold less cash in their investment accounts (36%-57% less than non-advised individuals for similar age and wealth cohorts)
- Advised investors re-balance more frequently, and are 42% more likely to re-balance their portfolios at least every two years

The Department of Labor's proposed Conflict of Interest rule would likely reduce retirement savings

- As proposed, financial advisors would be forced to stop providing workplace retirement plan set-up and support services to small businesses, due to the lack of an exception that would allow providers to market to self-directed plans with fewer than 100 participants, which will likely result in many small businesses closing existing plans or not establishing new plans due to the additional administrative burden

- Individuals with small balance accounts that are below standard advisory account minimums are likely to lose access to retirement help and support with selecting appropriate products as a result of providers shifting accounts from brokerage to fee-based advisory accounts. In our prior study, we estimated that 7 MM current IRAs would not qualify for an advisory account due to low balances[11]

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[11] Oliver Wyman, 'Assessment of the Impact of the Department of Labor's Proposed "Fiduciary" Definition Rule on IRA Consumers', 2011

- Almost all retail investors face increased costs (73% to 196% on average) from providers shifting clients to a fee-based advisory model. In our 2011 study, we found nearly 90% of the 23 MM IRAs analyzed were held in brokerage accounts [12]
- When changing jobs, individuals will be less likely to open an IRA to manage their plan savings, leading to lower savings rates and increased cash-outs[13]. In our 2011 study, we found that as many as 360,000 fewer IRAs would be opened every year
- Unadvised individuals will likely carry excess portfolio risk due to less diversification and less frequent re-balancing compared with advised individuals

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[12] Oliver Wyman, 'Assessment of the Impact of the Department of Labor's Proposed "Fiduciary" Definition Rule on IRA Consumers', 2011

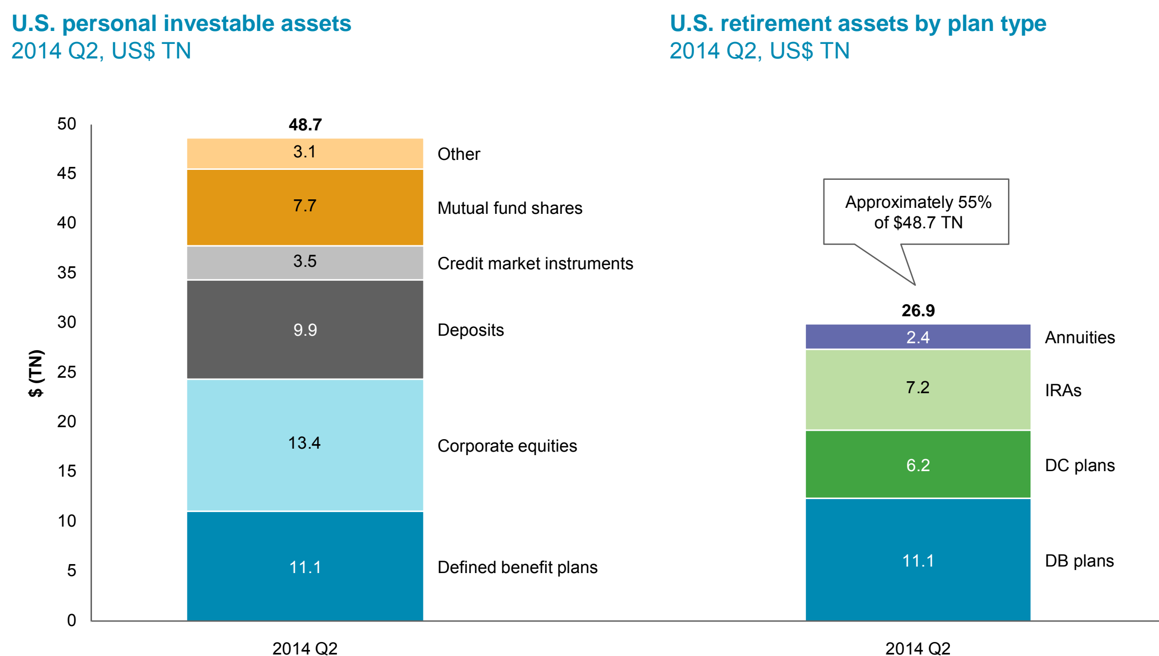
[13] Prior guidance from the DOL "held that recommendations to a plan participant to take an otherwise permissible distribution, even combined with a recommendation as to how to invest distributed funds, is not fiduciary investment advice." K&L Gates, DOL Re-Proposes Rule to make Brokers, Others, ERISA Fiduciaries (Apr. 27, 2015), http://www.klgates.com/dol-re-proposes-rule-to-make-brokers-others-erisa-fiduciaries-04-27-2015.

I. Role of financial advisors in the defined contribution plan market

Two-thirds of retirement assets are held in workplace retirement plans

At an estimated $26.9 TN, US retirement savings represent over half of total personal investable assets. Of this amount, workplace sponsored retirement plans such as defined benefit (DB) and defined contribution (DC) plans constitute approximately two-thirds of retirement assets, while the remaining one-third is held in IRAs and annuities (Figure 1).

Figure 1: US personal investable assets and retirement assets[14]



Individuals are increasingly responsible for saving for their own retirement

Nearly five times as many individuals are active participants in DC plans as compared to DB plans as of 2012 (75.4 million vs. 15.7 million).[15,16] Moreover, as Figure 2 shows,

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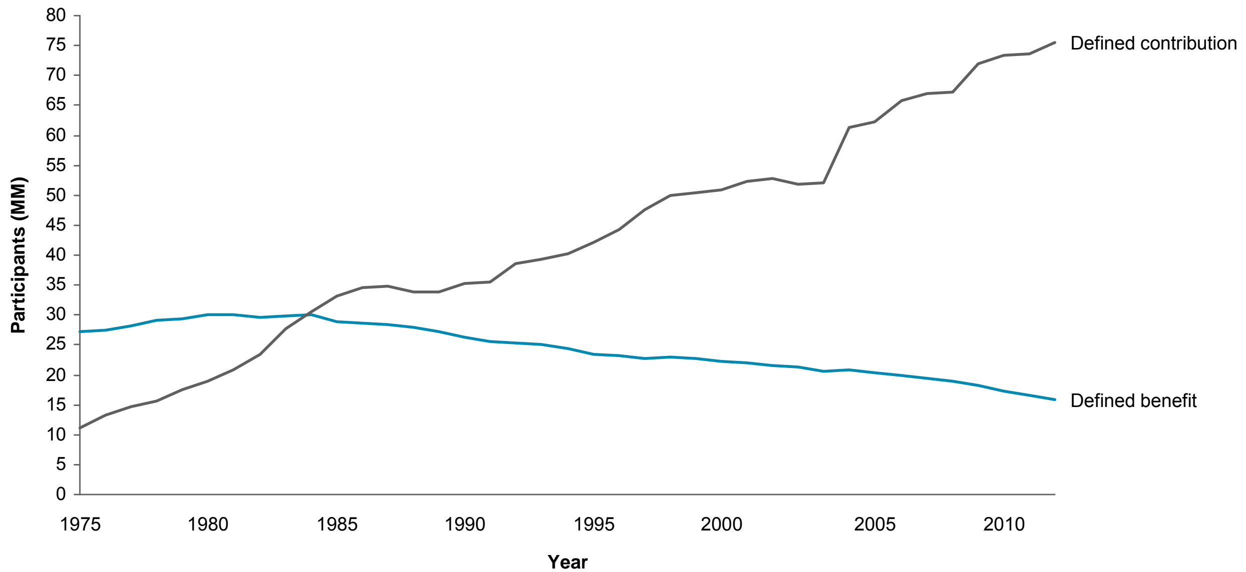
[14] Federal Flow of Funds L.116, B.100: Includes financial assets and defined benefit assets; excludes agency and GSE backed securities, other loans and advances, mortgages, consumer credit (student loans), pension entitlements and equity in non-corporate business
Federal Flow of Funds L.116: Retirement assets include household retirement assets

[15] Private Pension Plan Bulletin Historical Tables and Graphs, U.S. Department of Labor, Employee Benefits Security Administration, December 2014

[16] Note: Aggregation methodologies were changed in 2004 and 2009, generating anomalies for those years

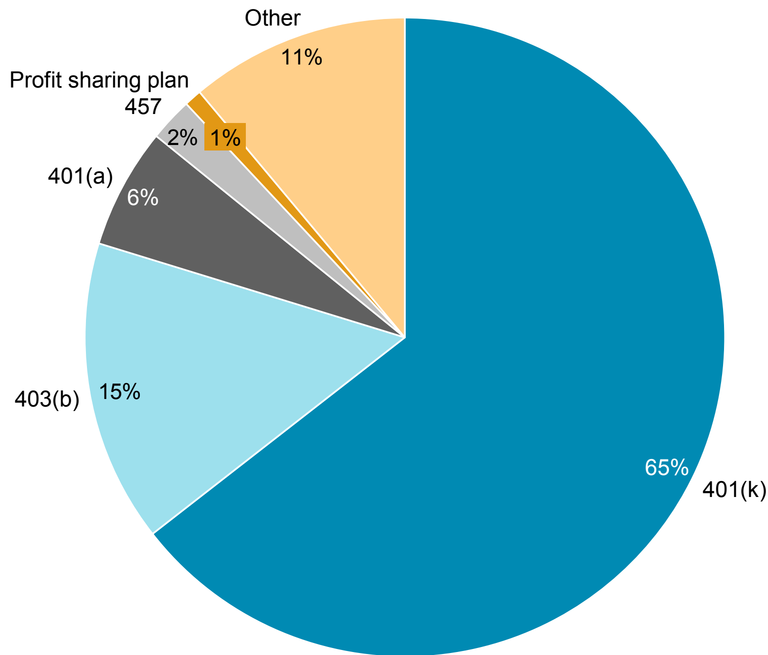
the long-term trend continues to favor DC plans. As a result, the level of retirement assets available to individuals is now dependent upon a number of factors both within and outside their control, including employment status, personal contribution rate, the availability of employer matching contributions, investments selected and market performance.

Figure 2: Active retirement plan participants (see footnotes 8,9)



Within the broad category of defined contribution plans, there are a number of different vehicles such as 401(k), 403(b), 401(a), 457 and profit sharing plans with different features to suit the needs of a wide range of business plan sponsors and individuals. As illustrated in Figure 3, the most popular vehicle by share of assets is the 401(k).

Figure 3: Defined contribution assets by plan type (2013 YE)[17]



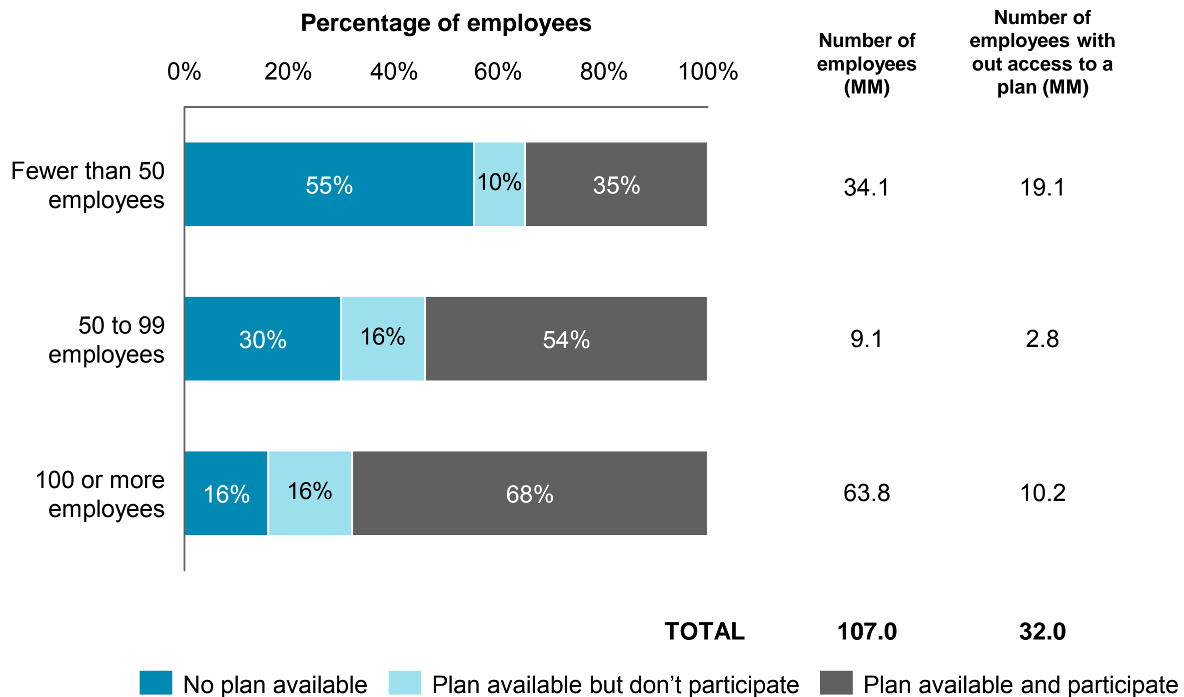
Based on our retail investor survey, we found that workplace retirement plans are vital for individuals to start saving for retirement – 84% of respondents began saving for retirement via a workplace retirement plan.

More than 80% of retail investors surveyed began saving for retirement through workplace retirement plans

[17] Pensions & Investments Research Center: (http://researchcenter.pionline.com/rankings/dc-money-manager/plantype/2014?limit=213)

As of 2013, approximately 75 million, or 70% of the 107.0 million full-time and part-time US private sector workers, had access to a workplace retirement plan, and 60 million, or 56% of 107.0 million, chose to participate. Of the 32 million private sector workers without access, nearly two-thirds, or 19 million, are employed by small businesses with fewer than 50 employees (Figure 4).[18]

Figure 4: Workplace retirement plan access and participation among private sector workers, W-2 adjusted rates, by firm size (2013)



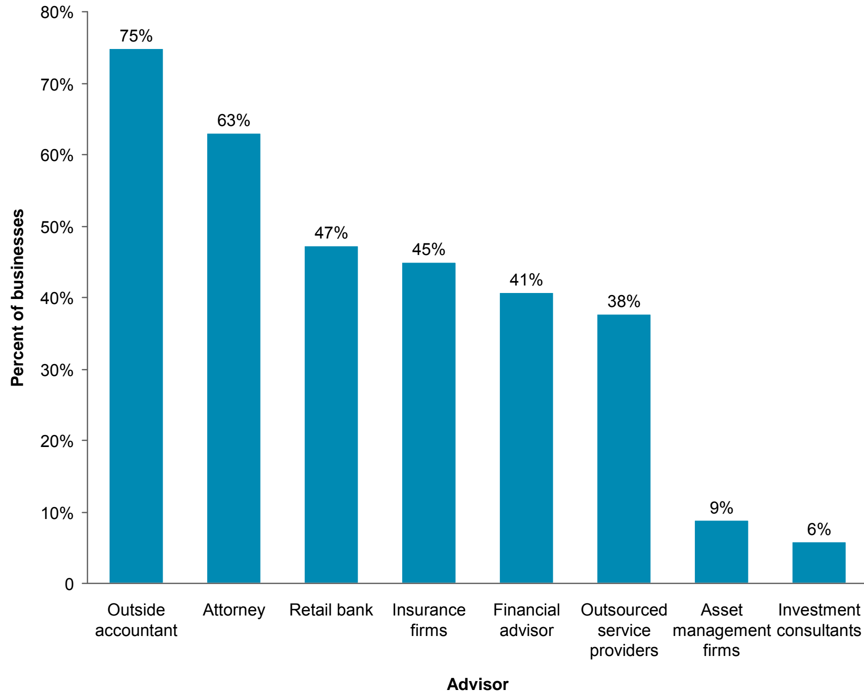
[18]The number of employees by firm size is based on Investment Company Institute tabulations of the US Census' Current Population survey (www.ici.org/info/per20-06_data.xls). We use W-2 adjusted self-reported access and participation rates, as compiled by Dushi, Iams, and Lichtenstein ('Assessment of Retirement Plan Coverage by Firm Size Using W-2 Tax Records', Social Security Administration, 2011, http://www.ssa.gov/policy/docs/ssb/v71n2/v71n2p53.pdf). This study accounts for under- and over-reporting of plan participation by using individual tax filings to identify tax-deferred contributions, and avoids the issues of double-counting of individuals active in more than one plan and non-active participants in plans with short-form filings associated with available DOL data.

Our research provides interesting insights into reasons for the lower availability rates of workplace retirement plans among small businesses. When asked to select their reasons for not offering a plan, we found that cost (47% of small business survey respondents), prioritization of other employee benefits (24%) and significant use of temporary labor (20%) were the most commonly cited barriers to DC plan formation.

Barriers to small business plan formation include cost, prioritization of other benefits and temporary labor

In contrast to large businesses that often employ investment consultants to assist internal governance committees with managing a DC plan, small businesses typically rely on a circle of trusted advisors. We found small businesses most commonly seek advice from a range of providers including accountants, attorneys, retail banks, insurance firms, financial advisors, and outsourced service providers. Figure 5 shows the prevalence of these advisors among small businesses.

Figure 5: Prevalence of different advisor types among small businesses[19]



[19] Oliver Wyman Small Business Retirement Survey 2014, Respondents were asked to select all of the advisors that they consult in the management of their business, hence the sum is greater than 100%. Participants were asked to select from the following options: outside accountant (CPA), outsourced service, financial advisor (e.g. Merrill Lynch, Morgan Stanley, Independent financial professional), asset management firms (e.g. Vanguard, T. Rowe Price), attorney, retail bank (other than private banks and brokerages within banks, e.g. JPMorgan Chase, Bank of America, HSBC, Citibank), investment consultants (e.g. Aon Hewitt, Mercer), insurance firms (e.g. Aetna, Nationwide), and none (I am solely responsible for all business decisions).

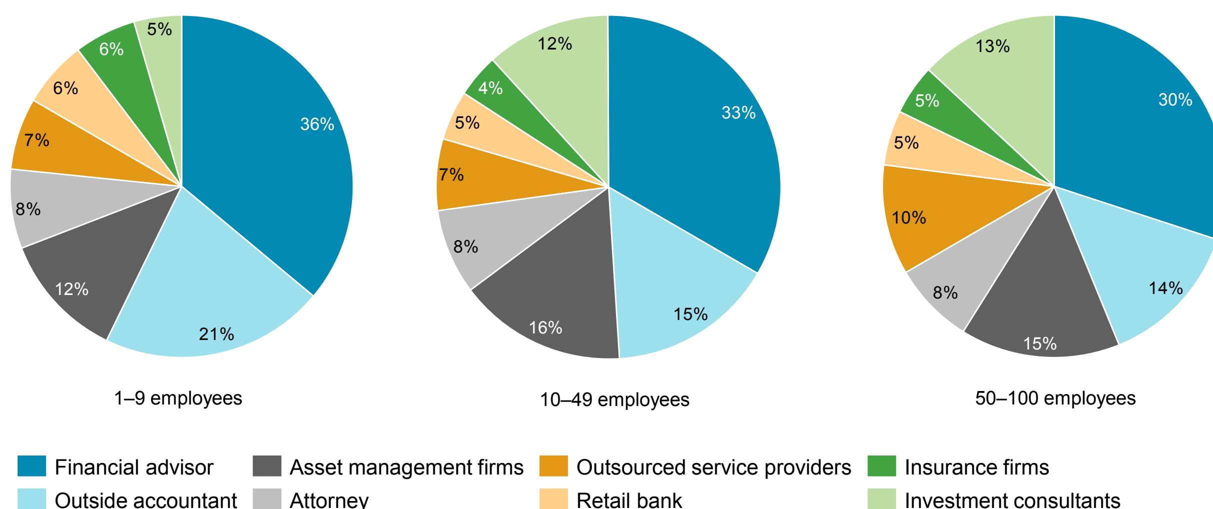
Financial advisors help small businesses set up workplace retirement plans

Small businesses use advisors for a range of services for their DC plans, which vary from plan to plan and from advisor to advisor. Examples of typical services include:

- Development of an investment policy statement covering aspects such as plan objectives, investment philosophy and risk appetite
- Plan design consulting (e.g. choice of funds, use of auto-enrollment, QDIA, auto-escalation, and employer matching program), and selection of a record-keeper
- Participant education and support (e.g. general help and support around plan participation, contribution rates and investment options, investment planning and IRA rollovers).

Small businesses perceive financial advisors to be most helpful with respect to guidance on retirement plan setup and administration. We asked survey respondents to allocate 100 points among their different advisors based upon the value they assigned to their help and support in choosing to set up a workplace retirement plan. As shown in Figure 6, this statement holds true across all types of advisors and business sizes with small businesses allocating between 30% and 36% of value to financial advisors.

Figure 6: Value of advice attributed to advisors in choosing to set up a retirement plan[20]

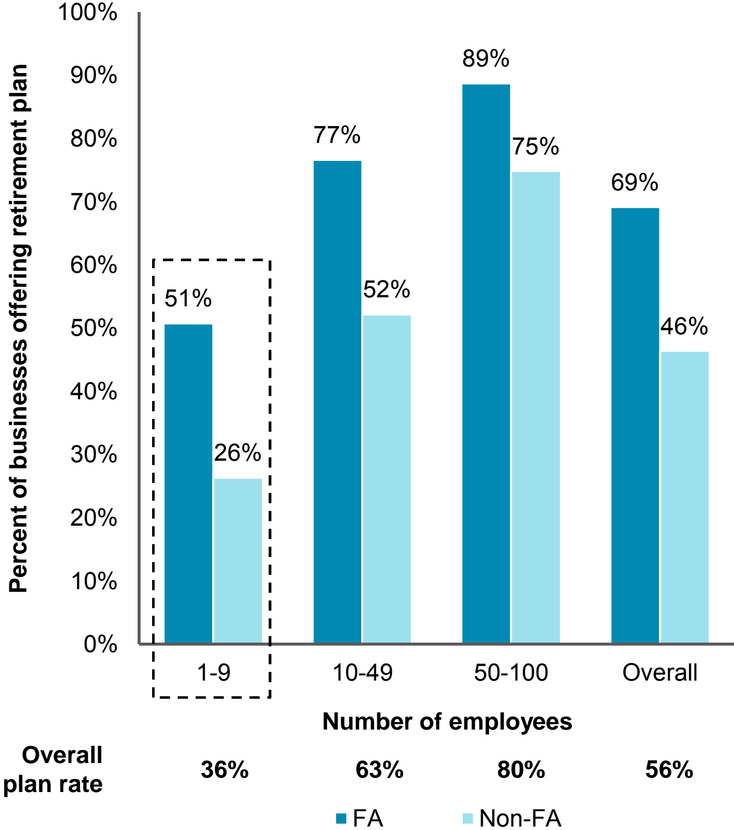


[20] Oliver Wyman Small Business Retirement Survey 2014, Respondents were asked to allocate 100 points across all their advisors in terms of their contribution to the business setting up a workplace retirement plan; presented values are calculated as the average score per advisor type.

Small businesses with financial advisors are 50% more likely to set up a retirement plan overall and micro businesses with financial advisors are nearly twice as likely to set up a plan

We found that 41% of small businesses with 100 or fewer employees work with a financial advisor, and that these firms are significantly more likely to set up a retirement plan. Specifically, businesses with 1–9 employees with a financial advisor are almost twice as likely to set up a retirement plan as are businesses without financial advisors (51% vs. 26%). Businesses with 10–49 employees with a financial advisor are 48% more likely (77% vs. 52%) and businesses between 50 and 100 employees are 19% more likely (89% vs. 75%) to set up a plan. These differences are illustrated in Figure 7 below. Additionally, micro businesses (1-9 employees) with financial advisors are 18% more likely to offer employer matching with a financial advisor (85%) than without (72%).

Figure 7: Plan formation rates by size of firm and advisor status[21]

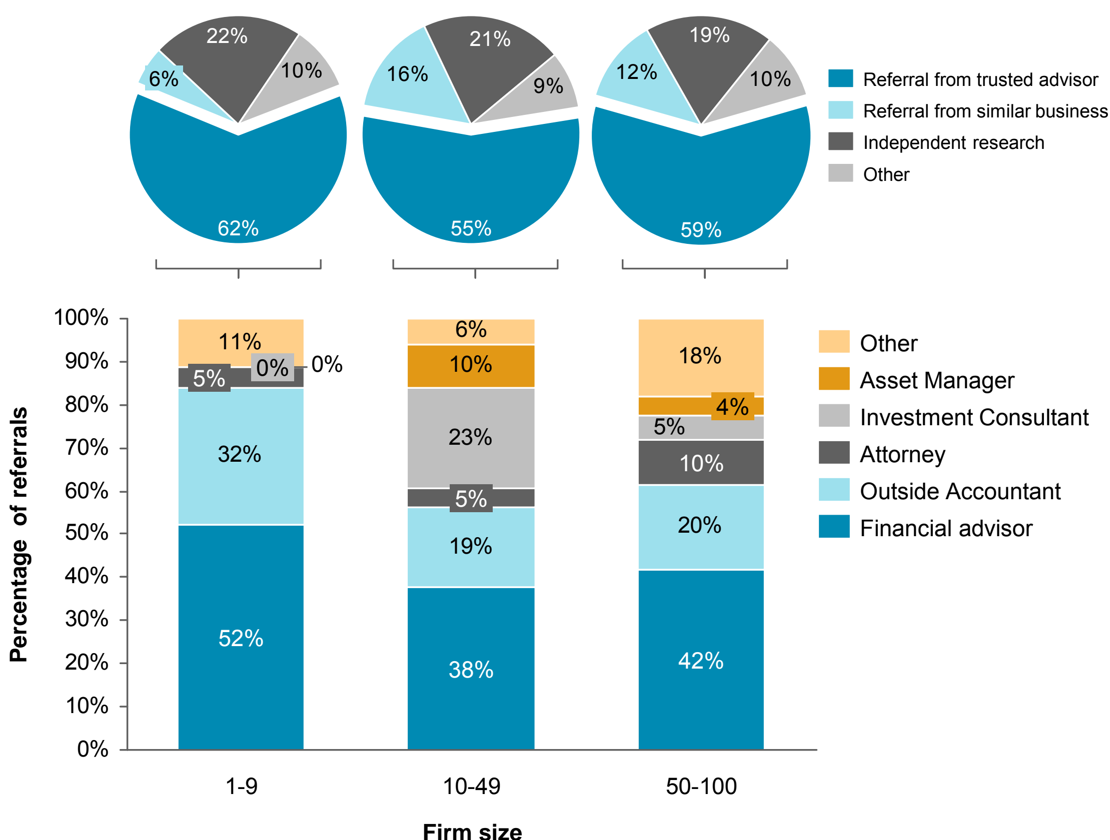


[21] Oliver Wyman Small Business Retirement Survey 2014

Financial advisors play a key role in referring small businesses to service providers, such as plan administrators/ recordkeepers and fiduciary service providers

As Figure 8 shows, a majority of small businesses, ranging from 55%–62% depending on size, found their workplace retirement plan provider via a referral from a trusted advisor. Financial advisors and accountants were the most common referral sources on a relative basis, with financial advisors cited between 33–45% of the time[22], depending on company size.

Figure 8: Frequency of referral to service provider(s), by advisor[23]



[22] Raw results are normalized to account for relative frequencies of different advisors. For example, in the 1-9 business segment, financial advisors provide 41% of all referrals on an unadjusted basis. We weighted this figure by the prevalence of financial advisor relationships among these businesses (i.e. 38%) and re-scaled all advisor scores to total 100%. This approach yields relative referral rates by removing skews associated with advisor prevalence.

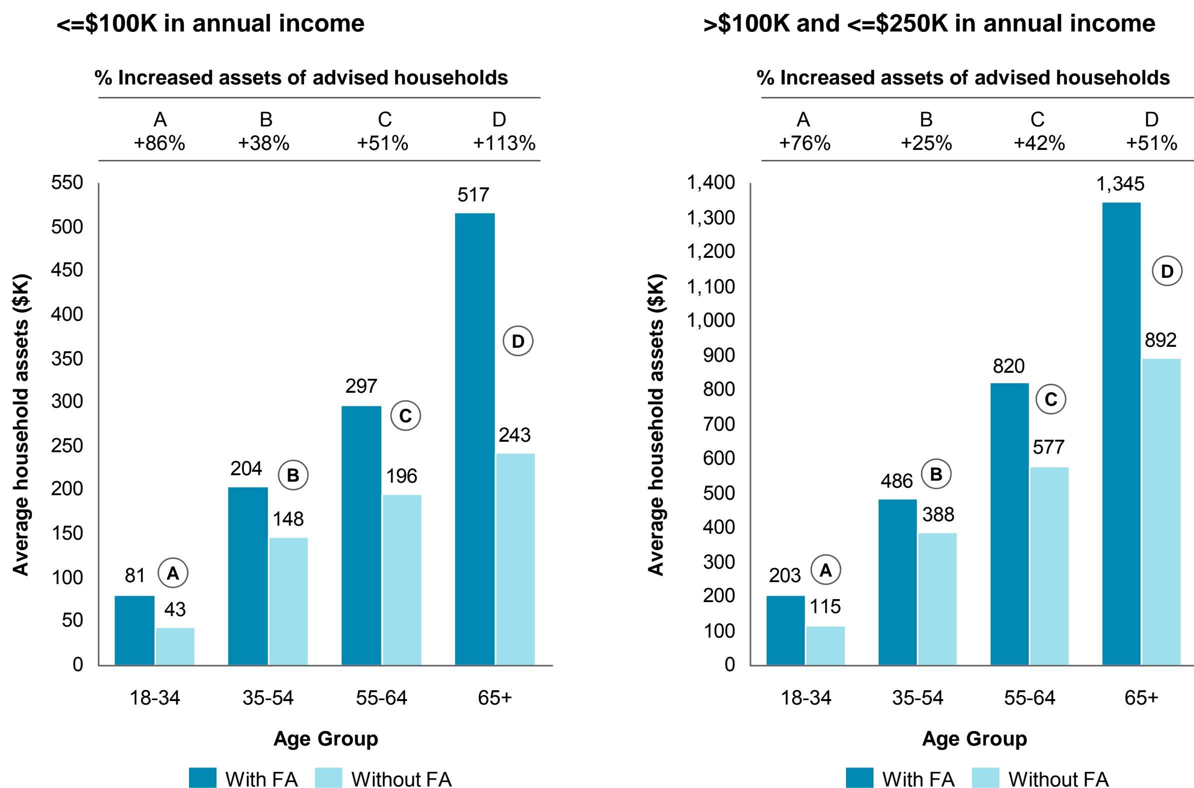
[23] Oliver Wyman Small Business Retirement Survey 2014

II. Role of financial advisors in helping individuals save for retirement

In our Retail Investor Retirement Survey, advised investors had a minimum of 25% more assets than non-advised individuals, depending on age and income levels

A key finding of our research is that individuals with a financial advisor have more assets than non-advised individuals across age, income, and wealth segments, as shown in Figure 9.

Figure 9: Total asset levels across relationship status, age, and income[24]



This finding holds true even when excluding survey respondents who anticipate receiving retirement income from either an inheritance or trust fund.

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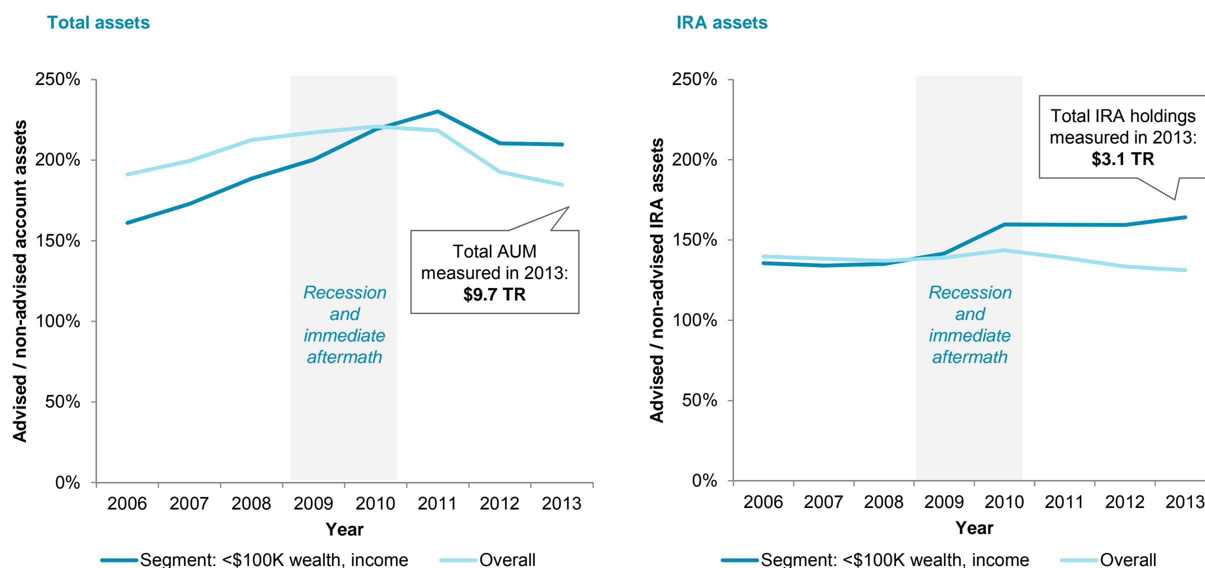
[24] Oliver Wyman Retail Investor Retirement Survey 2014

Our analysis of the IXI data, representing ~20% of U.S consumer invested assets, further substantiates and expands on this finding. We found that individuals with a financial advisor have larger account balances (including IRA assets) across age, income and wealth levels. Specifically, in 2013, 98% of accounts examined for advised individuals reflected ≥10% more investment assets compared to those of non-advised individuals controlling for age, wealth, and income. Moreover, 90% of accounts reflected ≥25% more investment assets among advised accounts.

This finding holds true across multiple time periods for specific wealth and income cohorts. Figure 10 illustrates this point for all segments as well as the segment with annual income and wealth below $100,000.

Figure 10: Ratio of average asset holdings for advised and non-advised investors[25]



As described in detail below, our research finds that individuals with a financial advisor are better investors across many dimensions commonly associated with long term investing success.

Advised individuals are better long term investors

Key elements of a robust long-term investing program typically include:

A. Developing and maintaining a personalized financial plan

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[25] IXI account-level time series dataset of U.S. Consumer Invested Assets; Oliver Wyman Analysis

B. Commitment to regular saving and investment
C. Constructing and maintaining a well-diversified portfolio of appropriate investment products
D. Staying invested in the market
E. Periodically re-balancing investment holdings to restore desired asset allocation and risk levels

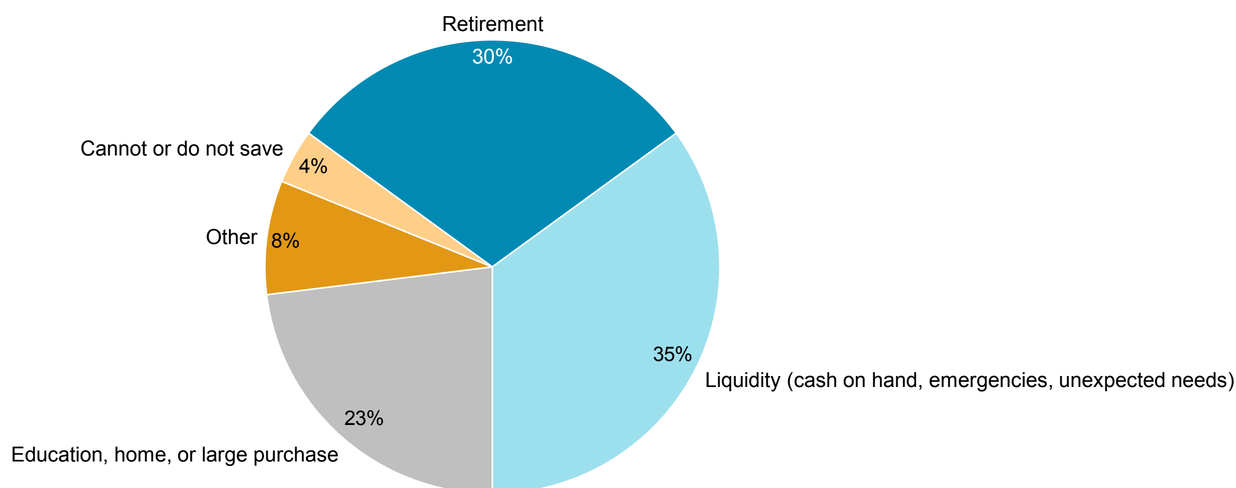
We found that financial advisors play an important role in helping individuals adopt each of these investing practices commonly associated with better investing outcomes.

A. Developing and maintaining a personalized financial plan

Individual investors' savings goals include liquidity, education and retirement, but their primary focus varies with life stage

Individuals have a range of different investment goals. As indicated in Figure 11, investors' most common investing objectives are ensuring sufficient liquidity; saving for retirement; and funding education or a large purchase, such as a home.

Figure 11: Households' primary reasons for saving[26]



The primary reasons for saving often vary significantly with life stage, however. In a recent survey, the Investment Company Institute (ICI) found that Households with a head of household younger than 35 primarily save for liquidity purposes (39%), whereas

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[26] Investment Company Institute, The Success of the U.S. Retirement System, Figure 1 (http://www.ici.org/pdf/ppr_12_success_retirement.pdf)

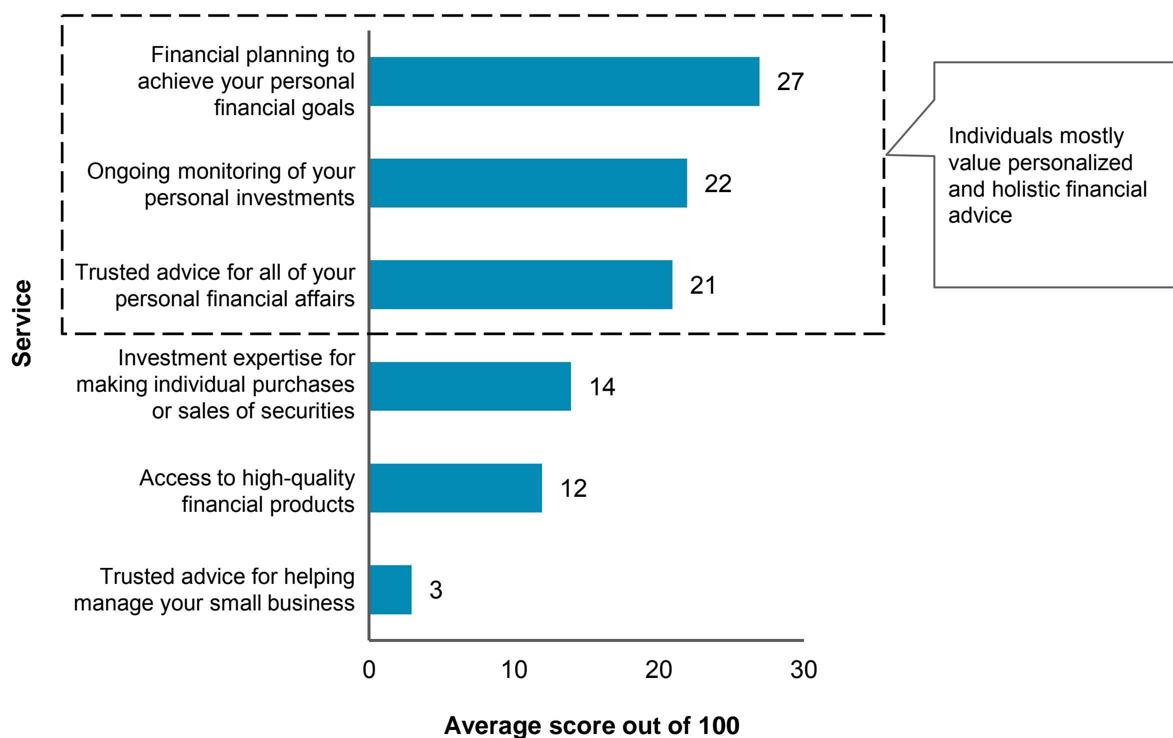
those in which the head of household is between 50 and 64 years old, are focused on retirement savings (48%).

58-75% of non-retired households seek professional financial advice, depending on wealth, and most value personalized financial planning, investment monitoring and holistic advice

Many Americans are uncomfortable with investing on their own, and consult with a financial advisor to assist with achieving their goals. By one measure, 58% of households with under $100,000 in investable assets, and 75% of non-retired households with over $100,000 in investable assets, solicit professional financial advice[27].

In our research, individuals most value the following services from their financial advisor: personalized financial planning, ongoing monitoring of investments and trusted advice for all their personal financial affairs (Figure 12).

Figure 12: Financial advisor services valued by investors[28]



[27] 2013 Survey of Consumer Finances

[28] Oliver Wyman Retail Investor Retirement Survey 2014

Against investor demand for holistic advice, we observe different help and support models available within workplace retirement plans and outside plans. In-plan help and advice is often well suited for individuals whose workplace plan represents their primary investment savings, while outside plan advice is a better fit for individuals with multiple investment accounts seeking advice and guidance on all investment holdings.

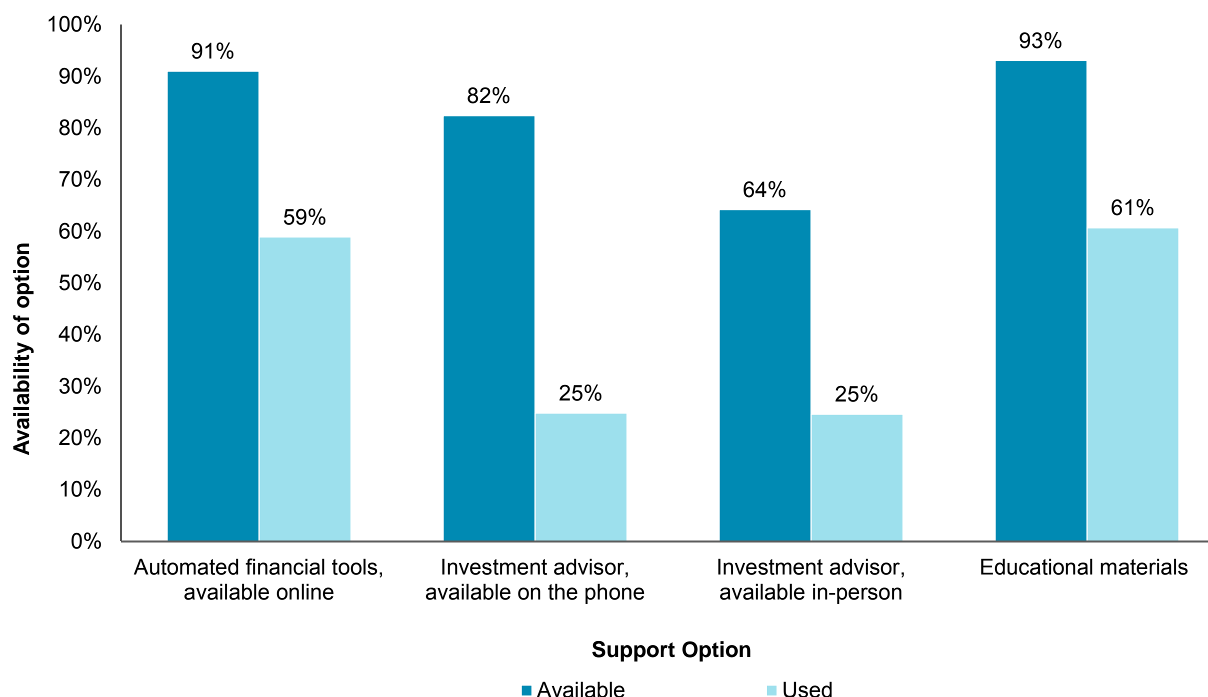
The majority of DC plans now offer a variety of educational materials, tools and advice options to enable individuals to make informed investment decisions. Educational materials and automated financial tools are the most widely available as well as the most used features as shown in Figure 13. In our research, in-plan advice had a positive impact on participant behavior for those who used it. We found participants who made use of at least one type of support contributed an average of 2.0 percentage points[29] more of their salary to a DC plan (6.7% vs. 4.7%) – an increase of 43%. When done in younger working years, this difference could mean a substantial difference in asset accumulation at retirement.

Participants who use in-plan advice features save 43% more, on average

We also found that fewer than half of plan participants currently use in-plan advice features. While 82% of individuals have access to an investment advisor on the phone and 64% have the ability to meet with a financial advisor in-person, utilization of these services is low. Of the individuals that participated in our survey, just 25% consulted with an advisor on the phone and 25% met with a financial advisor in-person.

[29] Oliver Wyman Retail Investor Retirement Survey 2014

Figure 13: Availability and usage of in-plan support options (for respondents with a defined contribution plan)



In-plan advice models are often more limited in scope compared with external advisory offerings

A number of financial firms operating in a brokerage model have forged partnerships with in-plan advice providers such as Financial Engines, Morningstar and Wilshire Associates, instead of establishing a relationship with their financial advisory businesses, to provide basic help and advice to plan participants on current plan holdings and investment options.[30,31,32] Due to legal constraints, this form of advice is generally limited to plan assets, which does not meet the full needs of individuals that hold assets in multiple DC plans and other brokerage and/or advisory accounts.

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[30] Financial Engines, 2012 Annual Report (http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTc3OTk4fENoaWxkSUQ9LTF8VHlwZT0z&t=1)

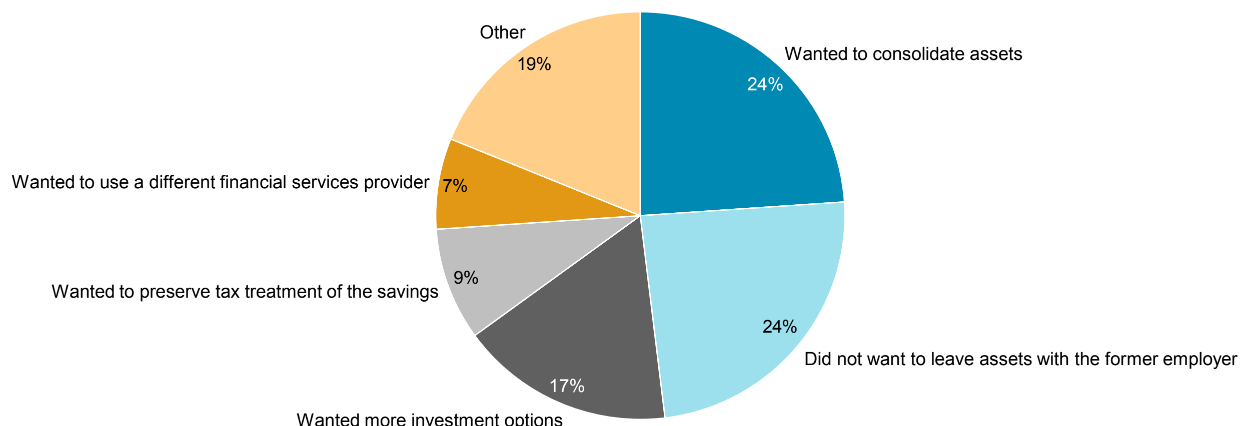
[31] Morningstar, 2012 Annual Report, (http://corporate.morningstar.com/us/documents/PR/2012-Morningstar-Annual-Report.pdf)

[32] Wilshire Associates, Retirement Managed Accounts, (http://www.wilshire.com/funds-management/our-solutions/retirement-managed-accounts)

Individuals elect IRA rollovers for many reasons including asset consolidation, increased investment options and access to a different financial services provider

Many individuals prefer to access financial help and support outside of their DC plans and choose to rollover their DC plan assets to an IRA when changing employers. According to a 2014 ICI report, "The Role of IRAs in US Household Saving for Retirement", more than 41 million US households hold an IRA of some type. In addition, as shown in Figure 14, ICI further found that nearly half of all rollover decisions were motivated by a desire to consolidate assets and avoid leaving assets with the former employer.

Figure 14: Primary reason for most recent rollover among those choosing to roll over assets[33]



Only 29% of workplace plan participants use DC plans exclusively for retirement savings; nearly two-thirds use a combination of DC plans and IRAs or IRAs only[34]

As demonstrated by the distribution of retirement plans within our sample of investors (Figure 15), 44% of individuals utilize both DC plans and IRAs in order to take advantage of the benefits of each type of account. As noted previously, IRAs offer

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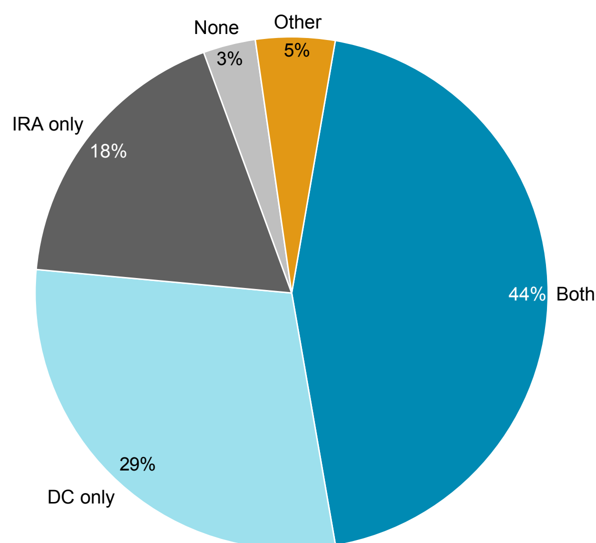
[33] Investment Company Institute, The Role of IRAs in U.S. Households' Saving for Retirement, 2014 (http://www.ici.org/pdf/per21-01.pdf)
Other includes 'Were told by a financial advisor to roll over assets', 'Wanted to keep assets with the same provider', 'Thought it was easier to roll over assets to an IRA', and 'Wanted the same investments as former employer's plan'.

[34] Oliver Wyman Retail Investor Retirement Survey 2014

access to holistic help and support, a wider selection or financial products, and greater control. In comparison, DC plans have a higher limit for tax-deferred annual savings (e.g. $18,000 for 401(k)s vs. $5,500 for IRAs, excluding catch up contributions) and employer matching contributions (where available), making them attractive vehicles for new retirement contributions.

Figure 15: Retirement plan ownership among investors[35]



B. Commitment to regular saving and investment

Individuals with a financial advisor are more likely to own an IRA, have greater IRA assets and save more of their income in 401(k) plans

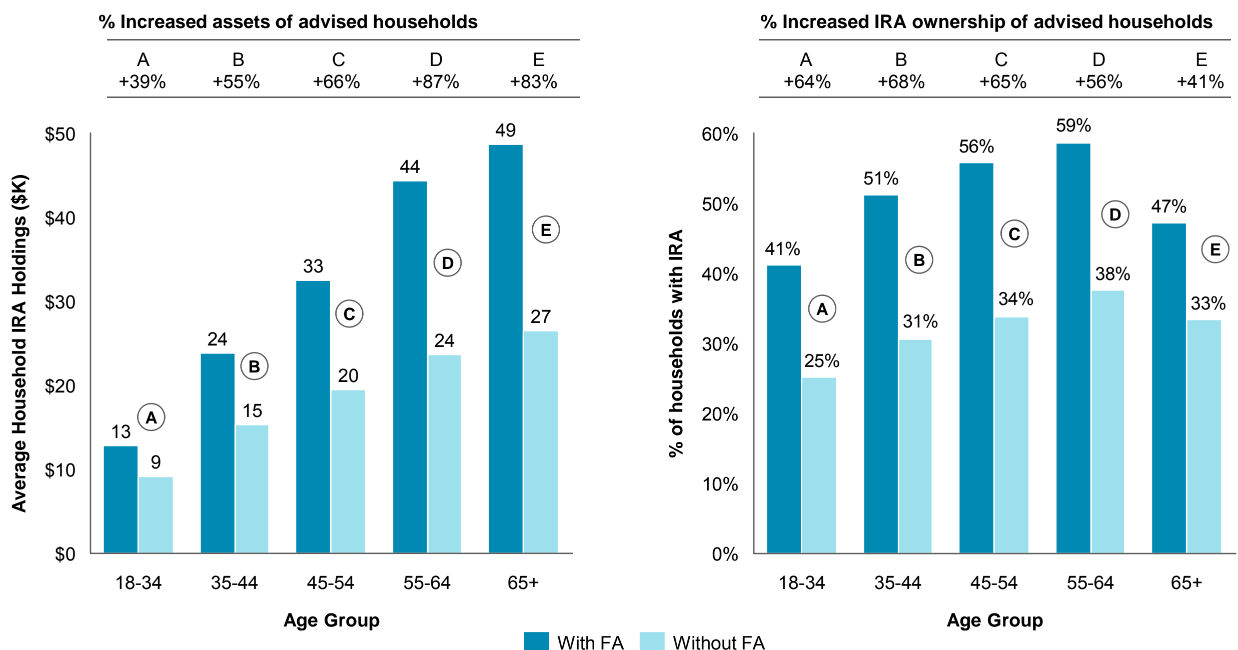
Individuals with a financial advisor are more likely to have an IRA. In 2013, 99.8% of households examined belonged to an age / income / wealth segment in which advised households were ≥10% more likely to have an IRA compared to non-advised households (and 87% of households belonged to segments in which advised households were ≥25% more likely to have an IRA).

Additionally, 94% of households examined belonged to an age / income / wealth segment in which advised households held ≥25% more IRA assets compared to non-advised households. Our findings for IRA ownership and asset levels hold true across income, age, and wealth segments. For example, Figure 16 shows IRA ownership and

[35] Oliver Wyman Retail Investor Retirement Survey 2014, includes only those with retirement or investment accounts

assets for advised and non-advised households within different age groups for the cohort with $0-100K in annual income and wealth, respectively. In this cohort, increased IRA ownership ranges from 41% higher for households with accounts registered to individuals 65 and older to 68% higher for those in the 35-44 age group. IRA asset levels for the $0-100K annual income and wealth cohort ranges from 39% higher for households with accounts registered to individuals aged 18-34 to 87% more for those aged 55-64.

Figure 16: IRA ownership and assets (2013) – Income: $0-100K, Wealth: $0-100K [36]



These results are consistent with a recent Natixis survey, where individuals with a financial advisor were found to hold more assets in their 401(k) across age and income segments, compared with non-advised investors. The Natixis survey also found that individuals with a financial advisor contributed an average of 1-2% more of their pre-tax salary to their 401(k) across age and income segments.[37]

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[36] IXI household-level dataset of U.S. Consumer Invested Assets; Oliver Wyman Analysis

[37] Saving is Not Enough: Liabilities, shortfalls and the need for active participation in 401(k) plans; Natixis Global Asset Management, August 2014 – online survey of 899 participants (427 with FA, 472 without FA) across age and groups

C. Constructing and maintaining a well-diversified portfolio of appropriate investment products

The benefits of portfolio diversification are well documented. Figure 17 shows how a diversified balanced index outperformed the S&P 500 by an average of 1.7 percentage points annually (11.2% vs. 9.5%) over a long time period (1965-2012) spanning multiple business cycles.

Figure 17: Comparison of return by portfolio composition[38]

Portfolio Mix	1965-1981	1982-1999	2000-9/2012	Total Period
S&P 500 Index	+6.3%	+18.5%	+1.7%	+9.5%
Cash	+6.7%	+6.2%	+2.2%	+5.3%
Diversified Balanced Index	+9.9%	+15.1%	+7.4%	+11.2%

Individuals with a financial advisor exhibit more diversified investment portfolios compared to non-advised individuals across a number of dimensions

Portfolio diversification refers to the practice of mitigating investment risk by investing in a variety of un-correlated products. There are a number of ways to assess portfolio diversification. We have attempted to assess relative portfolio diversification between advised and non-advised individuals with respect to several basic measures.

1. **The number of asset classes within the portfolio** – The correlation between investments in different asset classes is typically lower than that between investments in the same asset class. Thus, the more distinct asset classes in an investor's portfolio the more diversified the portfolio, on average.

2. **The ratio of equities to fixed income** – This is a basic measure of portfolio risk with a higher concentration in equities typically signaling a riskier portfolio. A "60/40" portfolio consisting of 60% equity and 40% fixed income is widely recognized as a balanced portfolio that provides capital appreciation and income while limiting volatility and potential loss of capital. A substantial overweighting of

[38] DFA Returns 2.0

equities or fixed income could indicate a misalignment between intended and actual risk-taking.

3. **The use of packaged products vs. individual securities** – Packaged products like mutual funds are typically composed of many securities, and have lower non-systematic risk (i.e. individual company risk exposure) than an equivalent investment in a smaller number of individual securities. As a result, investment strategies employing packaged products tend to be more diversified than strategies that rely only on individual securities.

Based on each of these three measures of diversification, we found individuals with a financial advisor have more diversified portfolios than individuals without a financial advisor.

1. Number of asset classes within the portfolio – Individuals with a financial advisor own twice as many asset classes as non-advised individuals

In a 2010 study, Charles Schwab found that financial advisors help clients achieve greater investment diversification, and that the average investor receiving professional advice invests in over four more asset classes than an investor who does not (e.g. more than 8 versus 3.7)[39].

2. Ratio of equities to fixed income -- Advised individuals have more balanced portfolios than non-advised investors, and hold, on average, more than 20% less equities and nearly twice as much fixed income

Individuals with a financial advisor have more balanced portfolios with less equity exposure and higher fixed income allocations than non-advised individuals. As shown in Figure 18, advised individuals held 17 percentage points (more than 20%) less equity than non-advised individuals, as well as nearly twice as much fixed income exposure (25% vs. 13% as a percent of the total portfolio). IRA holdings show a similar, finding where the difference in equity exposure is 8 percentage points (or 10%) less of an allocation for advised individuals vs. those without a financial advisor. By contrast, fixed income exposure is 38% higher for advised vs. non-advised individuals.

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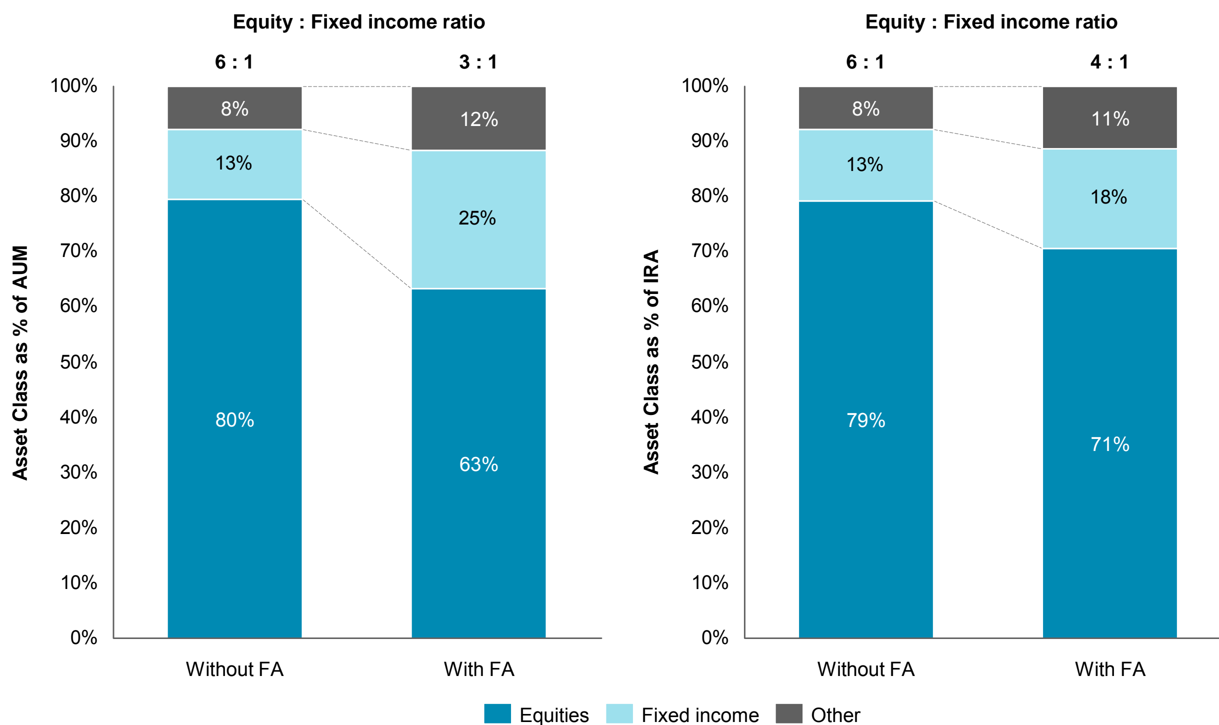
[39] Charles Schwab, 'Advice Matters: New Charles Schwab Study Demonstrates Positive Impact of Professional Advice on 401(k) Investor Behavior', (http://pressroom.aboutschwab.com/press-release/schwab-corporate-retirement-services-news/advice-matters-new-charles-schwab-study-demo)

Figure 18: Assets and IRA asset class mix for households with and without a financial advisor[40]



The finding of more balanced portfolios among advised individuals persists when controlling for age, income, and wealth, as 72% of households belong to a segment in which advised households hold more than 20% less of their assets in equities[41]. By way of further example, Figure 19 shows the same analysis of the segment aged 45-54 with less than $100,000 in annual income and total wealth, respectively. In this case, the difference in equity exposure is 76% vs. 85% of total assets for advised vs. non-advised individuals. Additionally, advised individuals hold more than twice as much fixed income as a percent of total assets, and 1.5 times as much in IRAs.

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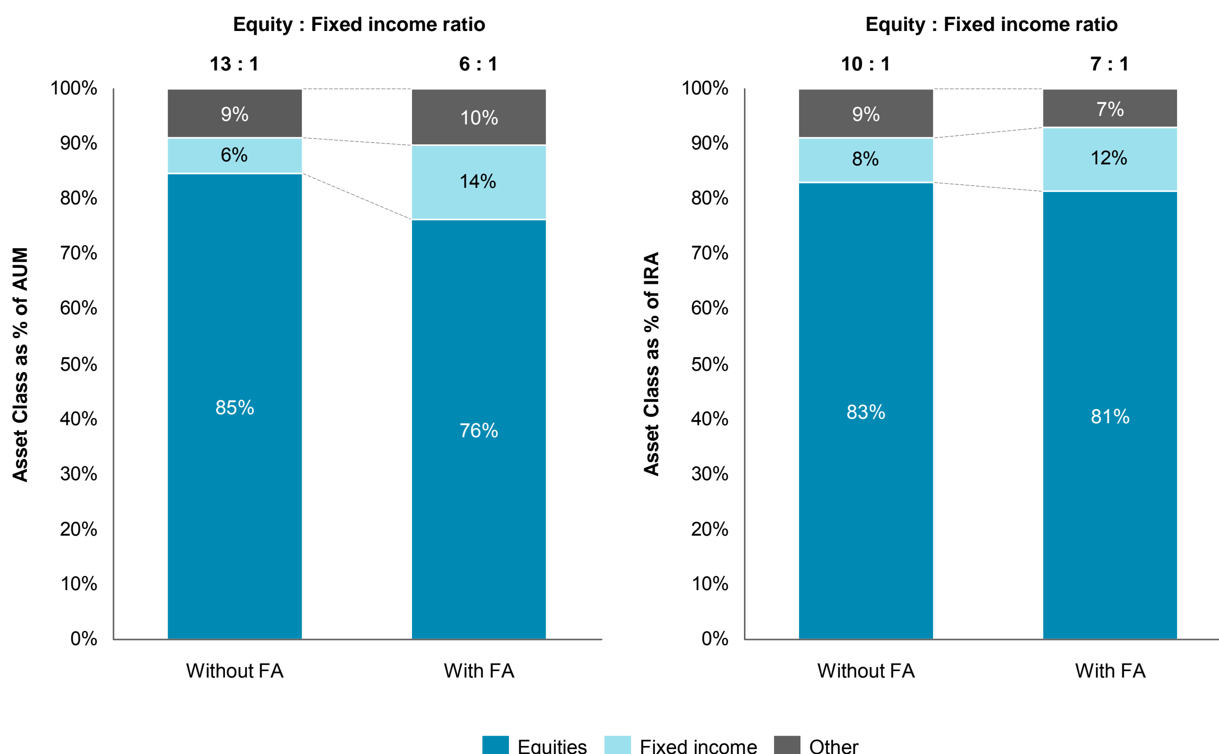
[40] IXI household-level dataset of U.S. Consumer Invested Assets; Oliver Wyman Analysis; percentages may not add up to 100% due to rounding

[41] Measured as a percentage of the total portfolio assets

Figure 19: Assets and IRA asset class mix – Age: 45-54, Income: $0-100K, Wealth: $0-100K[42]

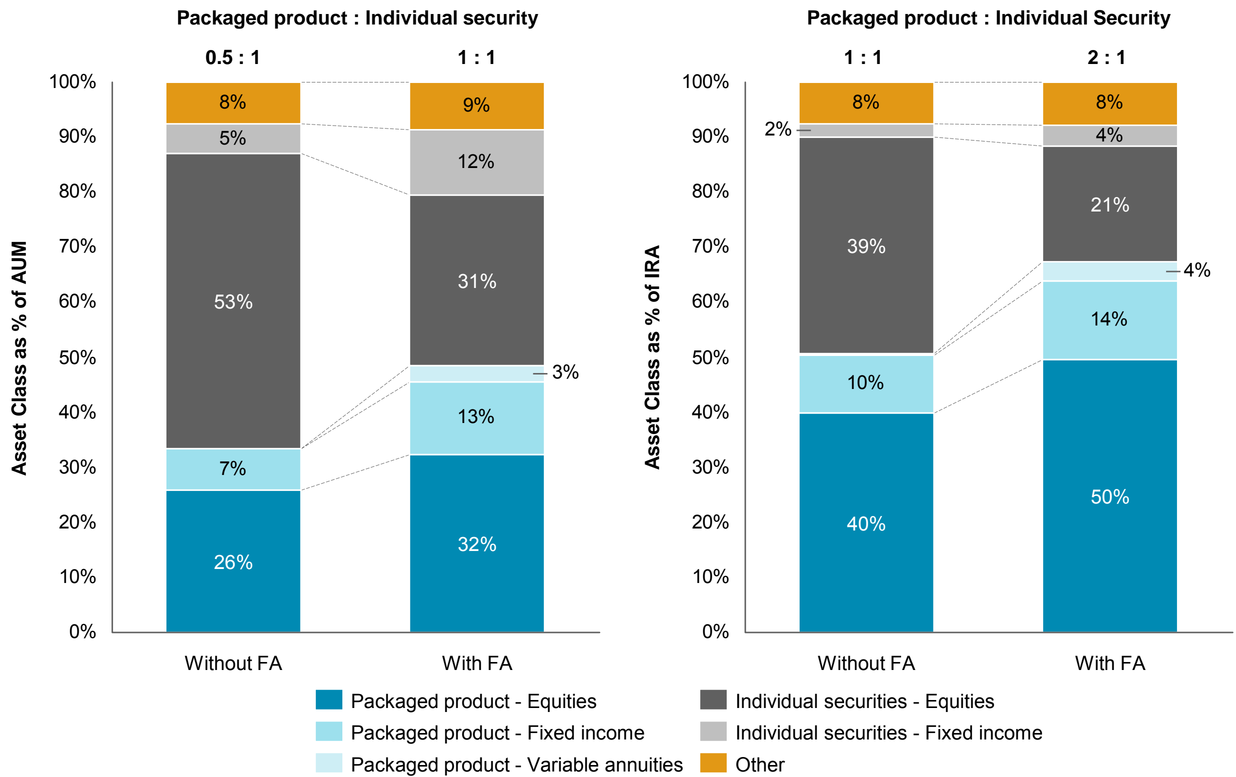


3. Use of packaged products vs. individual securities – Non-advised individuals hold 70% more of their equities exposure in individual securities compared to advised individuals

Finally, individuals with a financial advisor hold more of their equity exposure in packaged products compared to individuals without a financial advisor. Figure 20 shows individuals with a financial advisor hold approximately equal proportions of their equity exposure in packaged products and individual securities. By contrast, investors without a financial advisor hold 1.7 times as much of their equity exposure in individual securities, on average. The mix of IRA holdings again reflects this trend.

[42] IXI household-level dataset of U.S. Consumer Invested Assets; Oliver Wyman Analysis

Figure 20: Assets and IRA product mix for households with and without a financial advisor[43]



These trends hold true when controlling for age, income, and wealth. Figure 21 shows the findings for one particular segment (i.e. the cohort aged 45-54 with less than $100,000 in annual income and total wealth, respectively), where the comparison is even more stark. In this case, non-advised individuals hold more than four times as much of their portfolios in individual equity securities vs. equity packaged products.

In the cohort aged 45-54 with less than $100,000 in annual income and wealth, non-advised individuals hold four times more equity exposure through individual securities compared with advised investors

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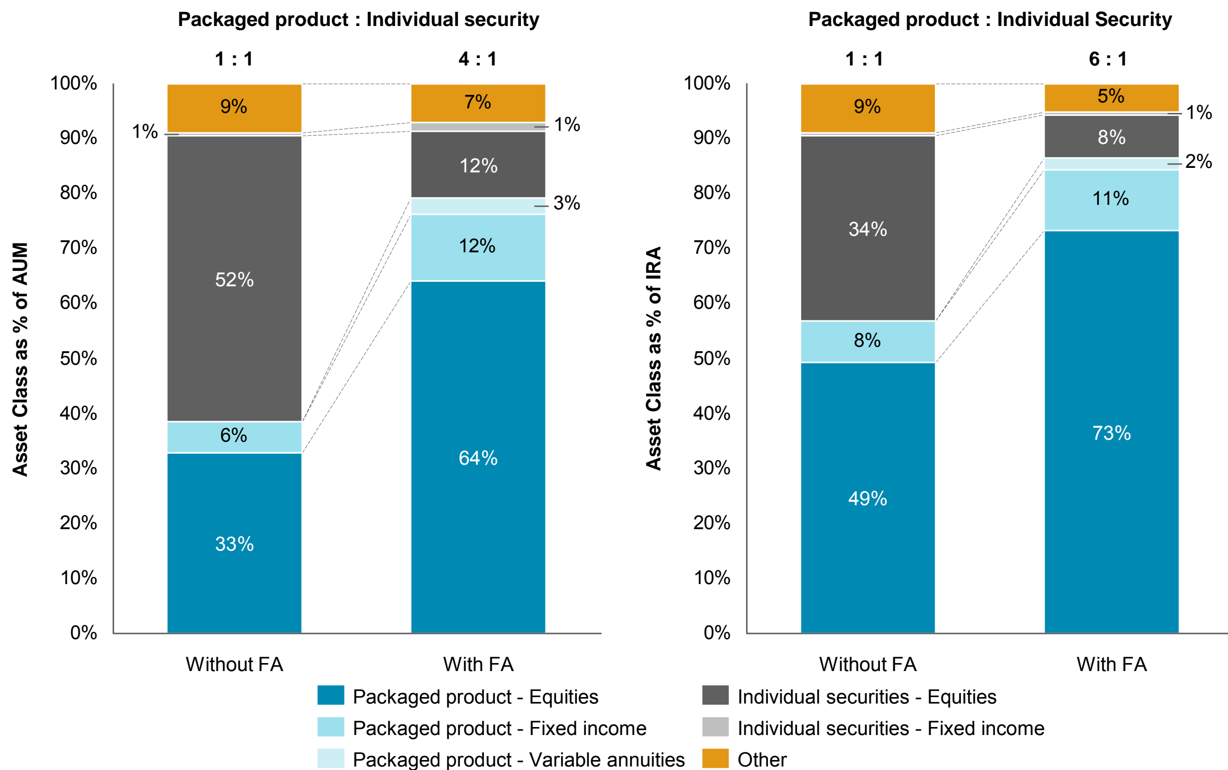
[43] IXI household-level dataset of U.S. Consumer Invested Assets; Oliver Wyman Analysis; percentages may not add up to 100% due to rounding of values

Figure 21: Assets and IRA product mix – Age: 45-54, Income: $0-100K, Wealth: $0-100K[44]



D. Staying invested in the market

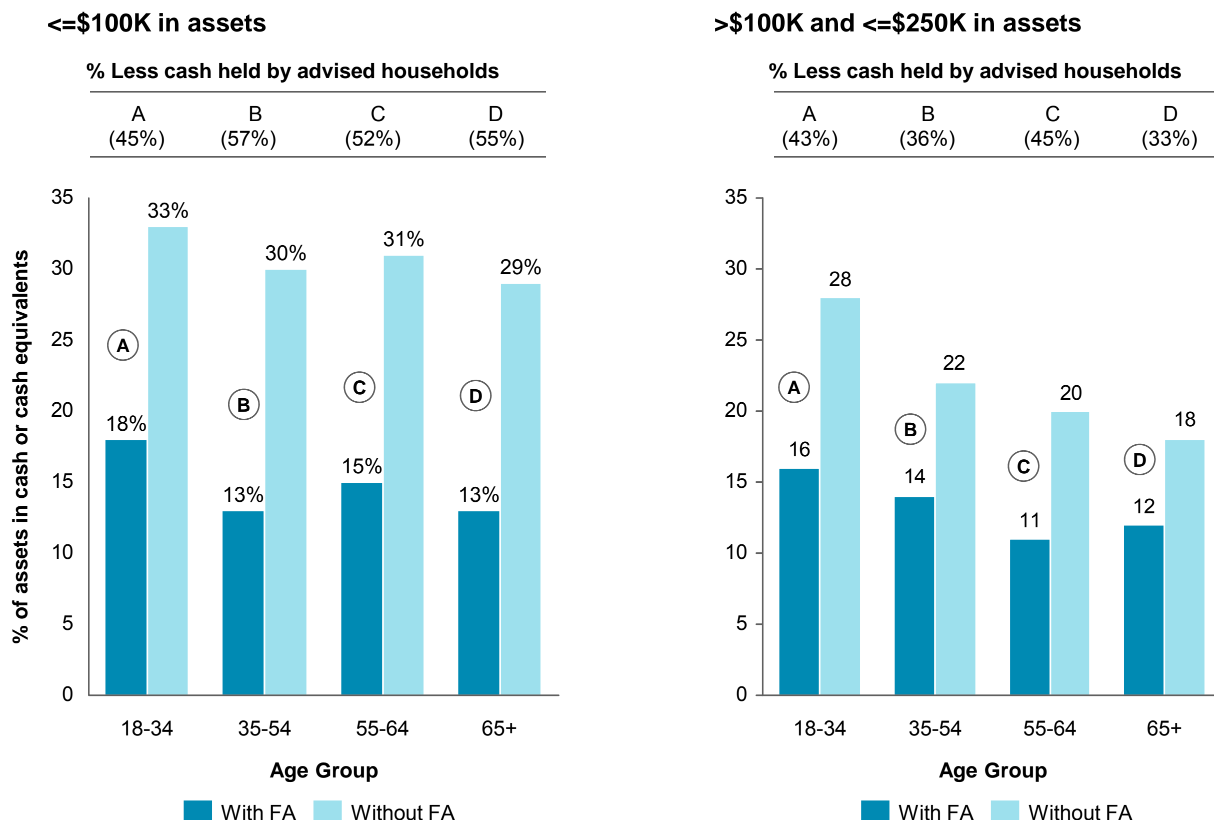
Individuals with a financial advisor hold smaller cash balances – ranging from 36%-57% less than non-advised individuals for similar age and wealth cohorts

In our Retail Investor Retirement Survey, we found that individuals with financial advisors hold a smaller percentage of their non-retirement assets in cash equivalents. As shown below in Figure 22, this finding holds true across all asset and age stratums[45]. As cash equivalent holdings have lower real returns, individuals may potentially achieve higher long-term returns by limiting their allocation to cash.

[44] IXI household-level dataset of U.S. Consumer Invested Assets; Oliver Wyman Analysis; percentages may not add up to 100% due to rounding of values

[45] The differences observed in cash holdings between advised and non-advised households was significant at a 95% confidence level for all segments except the group aged 65 or older with $250K-$ 1MM in assets

Figure 22: Percent of assets held in cash or cash equivalents outside of workplace retirement plans[46]



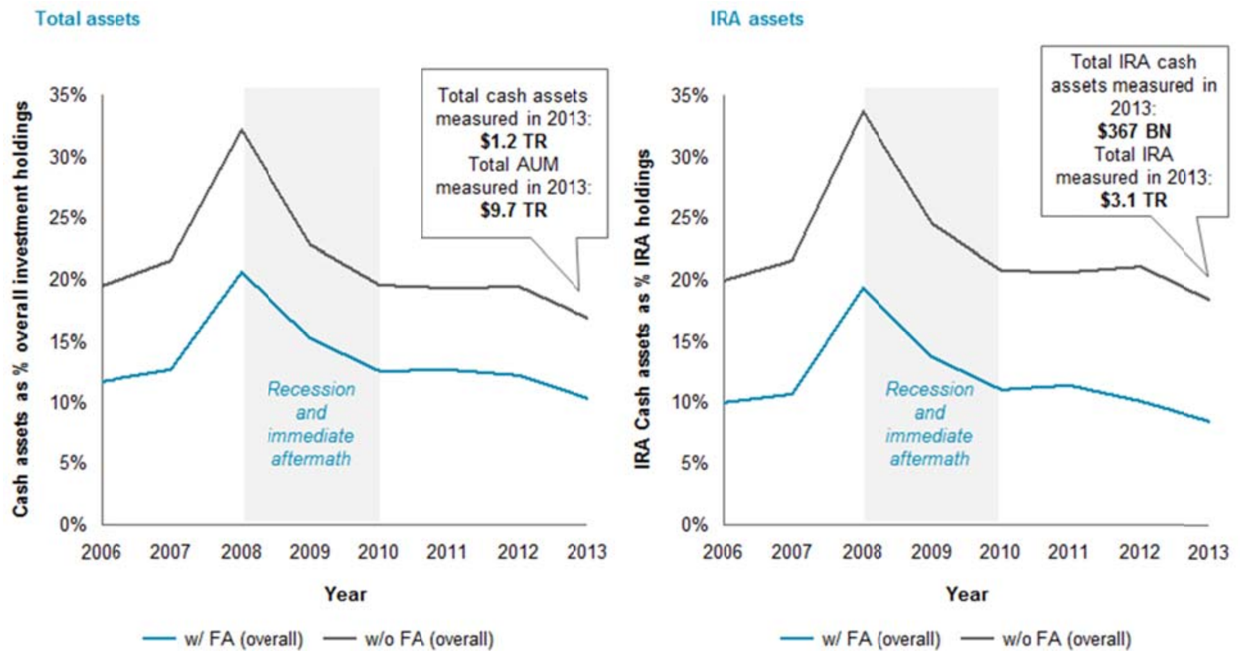
Again, the IXI data supports and expands upon this finding, which holds true over time for both total assets as well as retirement assets in IRA accounts across income, wealth, and age segments analyzed. For example in 2013, nearly 99% of advised households held 25% or more less cash and/or cash equivalents as a percentage of their portfolio compared to non-advised.[47]

Figure 23 depicts this trend for the overall population analyzed.

[46] Oliver Wyman Retail Investor Retirement Survey

[47] IXI account-level time series dataset of U.S. Consumer Invested Assets; Oliver Wyman Analysis

Figure 23: Cash holdings as a percent of account assets for advised and non-advised investors[48]



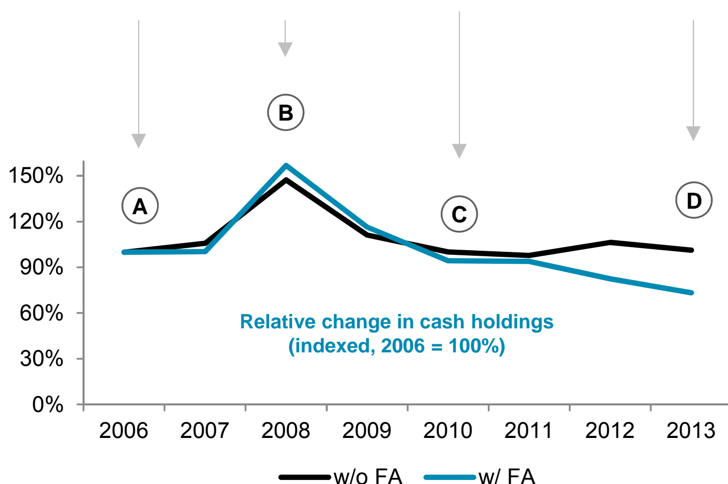
Analysis of the segment with less than $100K in wealth and income similarly shows that advised investors held substantially less cash as a portion of total account assets before (48% less), during (44% less) and after the financial crisis (60% by the end of 2013). (Figure 24).

[48] IXI account-level time series dataset of U.S. Consumer Invested Assets; Oliver Wyman Analysis

Figure 24: Cash holdings as a percent of total account assets for investors with and without a financial advisor – Segment with <$100K in wealth and income[49]

Average cash holdings (% of account assets))

	Pre crisis	Peak crisis	Post crisis+2	Post crisis+5
w/o FA	23%	34%	23%	23%
w/ FA	12%	19%	12%	9%



A — **Pre-financial crisis investors without a financial advisor held nearly 2X as much cash as advised investors**

B — **Both types of investors increased cash holdings during the crisis**

Even after accounting for a sharp drop in equity market values, investors increased cash holdings[1]

C — **By 2010, cash allocations for both types of investors had returned to pre-crisis levels**

However, investors with a financial advisor held nearly 50% less cash as a percent of total investable assets

D — **At the end of 2013, advised investors held 25% less cash vs. pre-crisis levels, while allocations investors without an FA remained constant**

At year-end 2013, non-advised investors held more than 2.5 times as much of their portfolios in cash

[1] Cash allocations could have increased without any change in investor behavior due to the large decline in equity markets. We analyzed the magnitude of the this potential effect in the following manner. Average advised investor pre-crisis (2007) allocation to equities was 60% while cash holdings represented 12% of investable assets. Assuming (1) no change in portfolio holdings, (2) only equity values changed, and (3) the equities allocation performed similarly to the S&P (as measured by SPY) during the financial crisis, the 38% drop in SPY share price in 2008 could have represented at most 3.5% of the 7% point increase cash holdings, i.e. .12/(1-(0.38*0.6))-.12. The equivalent figure for non-advised is 8%, i.e. 0.24/(1-(0.38*0.66))-0.24 of the 10% point increase in cash holdings. Since actual equity allocations dropped by only 40-45% of that predicted in (3) above, the equity market decline is estimated to account for an even smaller portion of increased account cash allocations..

The finding of persistently lower cash allocations for advised investors provides strong evidence that financial advisors help individuals enter and stay invested in the market across market cycles leading, on average and over time, to better investing outcomes.

Excess cash holdings represent a drag on investment performance. However, pre-mature withdrawal of retirement account assets is an even costlier investing behavior that reduces principal and the potential benefit of compounded returns.

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[49] IXI account-level time series dataset of U.S; Morningstar, Oliver Wyman Analysis

Financial advisors help individuals avoid premature IRA distributions - 76% of heads of households that made traditional IRA withdrawals in 2013 were retired

Tax-advantaged workplace retirement plans provide the greatest benefit when individuals start saving early and continue to save and invest throughout their working years until retirement age. According to a GAO study, “Cashouts [have] the greatest ultimate impact on participants’ retirement preparedness […] Cashouts of 401(k) accounts at job separation can result in the largest amounts of leakage and the greatest proportional loss in retirement savings.”[50]

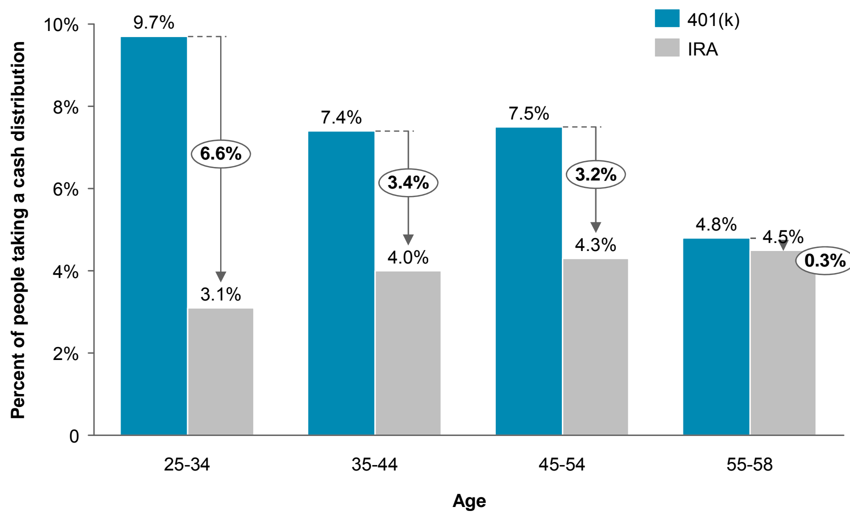
Approximately 9 out of 10 (88%) IRA accounts are held in a brokerage model, where an individual has access to a range of different types of advice and support from a financial advisor.[51] According to ICI, IRA holders tend to keep assets in their accounts until retirement. In 2013, 76% of households that made traditional IRA withdrawals were retired. This stands in contrast with DC plan behavior, where there is a natural triggering event when individuals terminate employment. According to a Vanguard study, 38% of individuals in their twenties took cash distributions upon leaving their employer[52]. Moreover, individuals aged 25-34 were more than three times as likely to take a cash distribution from a 401(k) compared to an IRA when leaving a job. Different distribution rates by age cohort and account type are illustrated in Figure 25.

[50] Government Accountability Office, ‘401(k) Plans: Policy Changes Could Reduce the Long-term Effects of Leakage on Workers' Retirement Savings’, August 2009

[51] Oliver Wyman, ‘Assessment of the Impact of the Department of Labor’s Proposed “Fiduciary” Definition Rule on IRA Consumers’, 2011

[52] Vanguard, ‘How America Saves 2013: A report on Vanguard 2012 defined contribution plan data’, June 2013

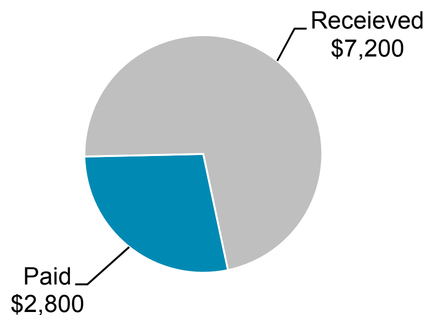
Figure 25: Percentage of individuals taking cash distributions by age and plan type[53]



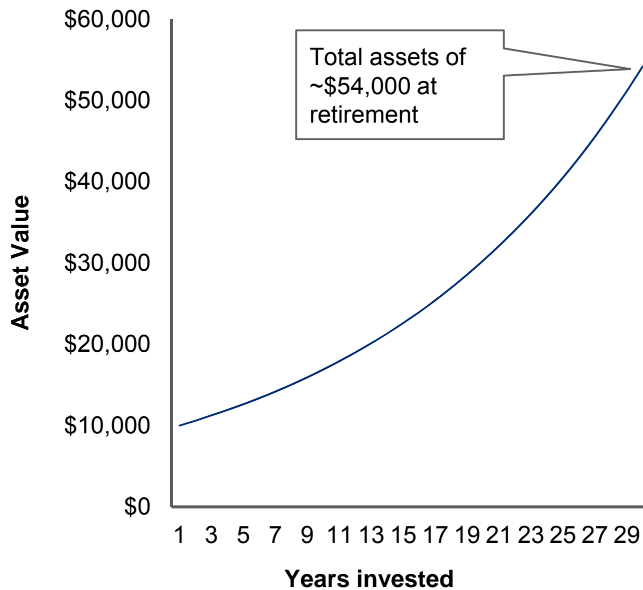
The value of remaining invested is illustrated in a worked example, shown in Figure 26, where we contrast the potential outcomes of two scenarios. In the first scenario, an individual with a $10,000 account balance takes a cash distribution 30 years prior to retirement. Assuming an early withdrawal penalty of 10%, a federal tax rate of 15% and a state tax rate of 3%, they would have $7,200 after penalties and taxes. In the second scenario, the individual rolls the same amount of money into an IRA, achieves an average annual return of 6% and is subject to the same combined state and federal 18% tax rate at retirement. In this situation, they would have $44,280 after taxes, or approximately $24,500 in current period equivalent dollars, assuming 2% annual inflation – an amount 3.4 times greater.

Figure 26: Worked example comparing a cash distribution with an IRA rollover-Illustrative

Penalty or Tax	Amount
Early Withdrawal Penalty (10% of withdrawal amount)	$1,000
Required Federal tax withholding	$2,000
Federal tax withholding refund you should receive	$500
State tax you will owe	$300



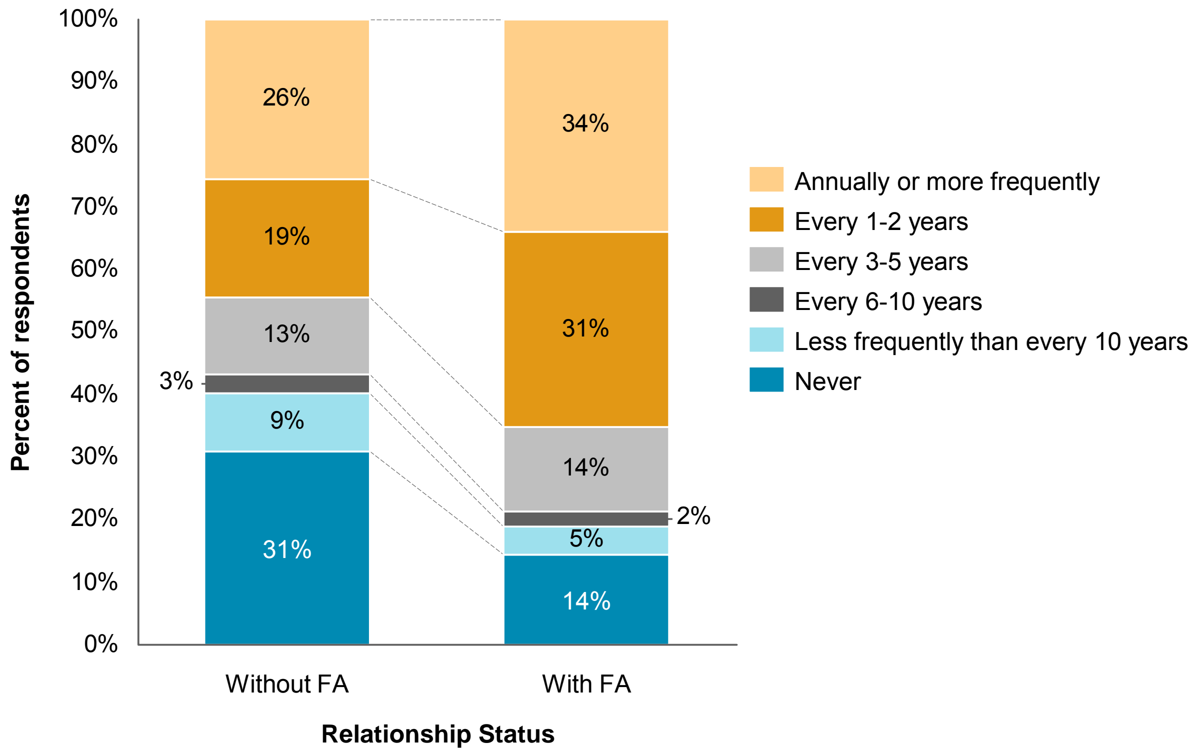
[53] Butrica, Zedlewski, Issa, 'Understanding Early Withdrawals from Retirement Accounts', 2010



E. **Periodically rebalancing asset holdings to restore desired asset allocation and risk levels** – Individuals with financial advisors are 44% more likely to re-balance their portfolios at least every two years

Portfolio re-balancing is an important risk mitigation tool. For example, if an investor's portfolio is valued at $100,000, divided equally between equities and fixed income, and the equities portion increases in value by 25% while fixed income increases by a more modest 5%, the overall portfolio value increases to $115,000. In this case, the equities allocation increases from 50% to 54% of the portfolio value, while the fixed income portion decreases from 50% to 46%. Regular re-balancing restores asset allocations to target levels to reflect investors' risk return objectives. In our research, individuals with financial advisors rebalanced their portfolios more often than non-advised individuals. 65% of advised individuals re-balanced at least every two years, compared with 45% for non-advised individuals (a difference of 44%). This is illustrated in Figure 27.

Figure 27: Rebalancing frequency outside of DC plans[54]



* * *

Returning to the original question of the value of a financial advisor, the majority of individuals across wealth and age segments, as well as many small businesses, seek professional financial advice, and value their FA as a trusted advisor. We found substantial evidence that advised individuals are more sophisticated and diligent long term investors who achieve better investing outcomes.

The benefits financial advisors provide are now at risk. On April 14, 2015, the Department of Labor issued its Conflict of Interest rule proposal, a replacement for the

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[54] Oliver Wyman Retail Investor Retirement Survey 2014: A KS test is significant at a 95% confidence level

Definition of the term “fiduciary” rule proposal withdrawn in September 2011.[55] In our 2011 study reviewing the impact of the previously proposed rule, we concluded that the Department of Labor’s proposed rule change was motivated by a laudable objective: to ensure a high standard of care toward retirement plan participants and account holders with regard to the receipt of services and investment guidance, amid an increasingly complex financial marketplace. However, we found the proposed rule was likely to have serious negative and unintended effects on the very individuals the change was supposed to help.

Many stakeholders are now analyzing the technical details of the newly proposed rule, and there is growing consensus on the implications for financial services providers with regard to the prohibited transaction exemptions newly proposed, modified or absent from the proposed rule. However, with regard to the impact on individuals, regrettably we reach the same overall conclusion as in the prior study. The proposed rule change will likely have significant consequences that will adversely impact individual investors’ ability to save for retirement.

- As proposed, financial advisors would be forced to withdraw workplace retirement plan set-up and support services from small businesses, due to the lack of an exception allowing providers to market to plans with fewer than 100 participants that are self-directed –many small businesses are likely to close or not open plans due to the additional administrative burden as a result. This would directly impact the 19 MM individuals who work for small businesses with fewer than 50 employees, who do not currently have access to a workplace retirement plan by reducing the likelihood these individuals will gain access to a plan in the future

- Individuals with small balance accounts are likely to lose access to retirement help and support with selecting appropriate products. We previously estimated that 7 MM current IRAs would not qualify for an advisory account due to low balances[56]
- Almost all retail investors would face increased costs (73% to 196% on average) from providers shifting clients to a fee-based advisory model. In our 2011 study, we found nearly 90% of the 23 MM IRAs analyzed were held in brokerage accounts [57]

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[55] Definition of the Term “Fiduciary”; Conflict of Interest Rule – Retirement Investment Advice, 80 Fed. Reg. 21928, pp. 21927-21960 (proposed Apr. 20, 2015)

[56] Oliver Wyman, ‘Assessment of the Impact of the Department of Labor’s Proposed “Fiduciary” Definition Rule on IRA Consumers’, 2011

[57] Oliver Wyman, ‘Assessment of the Impact of the Department of Labor’s Proposed “Fiduciary” Definition Rule on IRA Consumers’, 2011

- Individuals are less likely to open an IRA, leading to lower savings rates and increased cash-outs when changing jobs[58]

- Unadvised individuals are likely to carry excess portfolio risk due to less diversification and less frequent re-balancing compared with advised individuals

*   *   *

Retirement is too important to get wrong [59]. We encourage key stakeholders from the financial services industry and regulators to join together to find workable solutions that preserve individuals' access to help and support from a financial advisor of their choosing as well as the business model and fees that best meet their needs.

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[58] Prior guidance from the DOL "held that recommendations to a plan participant to take an otherwise permissible distribution, even combined with a recommendation as to how to invest distributed funds, is not fiduciary investment advice." K&L Gates, DOL Re-Proposes Rule to make Brokers, Others, ERISA Fiduciaries (Apr. 27, 2015), http://www.klgates.com/dol-re-proposes-rule-to-make-brokers-others-erisa-fiduciaries-04-27-2015.

[59] [C]onstraints on the availability of investment services that could result from the DOL's reproposal, particularly for smaller plans or individual retirement investors, can undermine the retirement system in various ways." Sutherland, Legal Alert: DOL Reproposes Expanded ERISA Fiduciary Definition and Revised Complex of Exemptions (Apr. 21, 2015), http://www.sutherland.com/NewsCommentary/Legal-Alerts/172823/Legal-Alert-DOL-Reproposes-Expanded-ERISA-Fiduciary-Definition-and-Revised-Complex-of-Exemptions.

Survey methodology

Our small business survey had 1,216 valid complete responses by owners and HR decision makers of payroll-based businesses with between 1 and 100 employees. We employed a stratified sampling approach designed to control for the size of the business and ensure that a sufficient number of businesses were recorded that did and did not consult with financial advisors. Furthermore, we selected three company size cohorts for analysis, namely 1–9, 10–49, and 50–100 employees, based the alignment of these segments with data available on employee retirement plan access for comparison purposes. This design allowed us to isolate the impact that financial advisors have upon small businesses. Where appropriate, we report conclusions that are statistically significant at a 95% confidence level using standard methods of statistical inference.

Our retail investor survey had 4,393 valid complete responses by non-retired individuals with investments or retirement accounts. Responses were excluded from respondents who, at the time of the survey, were: under age 18; retired; not at least partially responsible for financial decision making; and non-investors, meaning they did not have at least one investment or retirement account. In addition, we excluded incomplete responses and those completed in less than 1/3 of the median time to ensure a robust data set. Any figures that we report describe this specific sub-population.

Our stratified sampling approach in this case controlled for age and income as well as the presence of a financial advisor. In designing the sample this way, we strove to control for the effects that age and income have upon investment decisions and retirement planning. However, as our sample does not match the composition of the overall population, we utilize scale factors in our analysis to correct for respondent bias, by underweighting sample responses that are overrepresented relative to the population and vice-versa. Although we sampled based upon age, income and the presence of a financial advisor, we scale our sample to the population using age, assets, and the presence of a financial advisor, as the distribution of household assets is better documented in secondary sources than the distribution of personal income. We obtained the population distribution of household age and assets for FA advised and non-FA advised households from the survey of Consumer Finances, a triennial cross-sectional survey of US families conducted by the Federal Reserve. We utilized the 2013 survey data. We report conclusions that are statistically significant at a 95% confidence level.

Appendix I.

Methodology for analysis of U.S. retail investor assets

Our analysis leveraged IXI Services data containing segment-level detail on U.S. consumer invested assets. Segments were defined by specific age tiers (five), income tiers (eleven), wealth tiers (seven), advisor relationship type (Full Service Brokerage vs. Discount Brokerage) and year. For the purposes of this report, we refer to the Full Service Brokerage relationship as "with financial advisor" and the Discount Brokerage relationship as "without financial advisor."

IXI data contained information on total segment:

- Assets and IRA holdings
- Asset class distribution
- Number of households / accounts

We used two datasets from IXI, which were distinct in the following ways:

Dataset name	1. Household Point-In-Time	2. Account Time Series
Time period	2012-2013	2006-2013
Count type	Households[60]	Accounts
2013 Assets	$5.6 TR	$9.7 TR
2013 Population	21 MM households	71 MM accounts
Segment criteria	Only households with recorded age, income and wealth segment	Includes accounts with no recorded age

While the age segment criterion was analyzed in the Account Time Series dataset, it was ultimately eliminated to capture a broader representation of US invested assets. This is due to a data limitation whereby only 60% of accounts were associated with a specific age. All findings in this study were confirmed across all age, wealth, income, and time segments in both the Household Point-In-Time and Account Time Series datasets unless indicated otherwise.

Findings were generated by comparing the segment-level averages of the various metrics listed above between the Full Service and Discount Brokerage populations. In drawing conclusions from this granular segment-level comparison, we disregarded segments with fewer than 500 households (Household Point-In-Time) or 500 accounts

[60] IXI could only aggregate account holdings from a single household within a given institution and could not aggregate households' holdings across institutions

(Account Time Series) to eliminate segments with insufficient data points. This resulted in the exclusion of 0.01%-0.04% of the population.

Appendix II.

Automated solutions to address inertia in retirement plans do not guarantee optimal retirement outcomes

It has been well-documented that retirement outcomes are significantly impacted by the status quo bias that leads DC plan participants to prefer their current state both in terms of non-participation and nature of participation[61]. This not only affects contribution rates but also asset allocations, both with respect to rebalancing and following a risk allocation glide path to match investor risk profiles at various ages.

Standard default contribution rates do not appear to generate sufficient asset levels for retirement.

Automatic features can impact participant behavior, a notable example being auto-enrollment features which have been shown to increase plan participation by 45%.[65] However, while encouraging participation is certainly a step in the right direction, according to EBRI, the most common default contribution rate within a workplace retirement plan was just 3% in 2012[62]. This falls well short of an ideal default path to encourage sufficient retirement savings, which is suggested by Prudential as, "A 5–6% default deferral rate with a 2% annual acceleration up to a cap of at least 10–12%"[65]. Unfortunately, only 21% of plans had an automatic escalation feature in 2013[63], leading us to conclude that inertia leads many participants continue to save at sub-optimal default contribution rates.

The illustrated example shown below in Figure 28 confirms that for the average individual, a 3% savings rate results in sub-optimal retirement savings. The example utilizes the median income by age according to the US Census, which assumes that an income of approximately $36,000 at age 25 grows to an income of $58,000 at age 65. In addition, we utilize a constant 3% contribution rate consistent with the most common default rate, and 6% annual returns. These assumptions lead to a total asset value of approximately ~$220,000 at age 65, which at approximately 3.8 times the illustrative ending salary falls short of industry recommendations that suggest that individuals save 8 times their ending salary[64], or approximately $460,000 in this case. In order to retire

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[61] Overcoming Participant Inertia: Prudential Research: (http://research.prudential.com/documents/rp/Automated_Solutions_Paper-RSWP008.pdf)

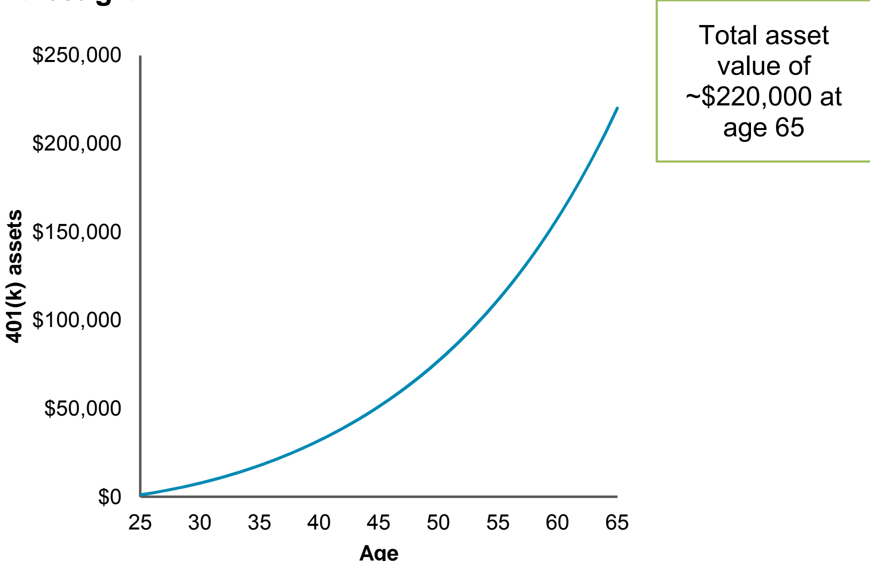
[62] EBRI September 2012 notes: (http://www.ebri.org/pdf/notespdf/EBRI_Notes_09_Sept-12.HCS-AE.pdf)

[63] JP Morgan Asset Management, 2013 defined contribution Plan Sponsor survey Findings: Evolving Toward Greater Retirement Security

[64] Fidelity Investments, 'Fidelity Outlines Age-Based Savings Guidelines to Help Workers Stay on Track for Retirement', September 2012, (http://www.fidelity.com/inside-fidelity/employer-services/age-based-savings-guidelines)

comfortably while contributing only 3%, our individual would need to work until age 77. Conversely, contributing an annual average of 6.3% would allow for retirement by age 65.

Figure 28: Example retirement assets by year at median income, 3% contribution rate, and 6% growth



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Edward Jones

April 17, 2017

The Office of Regulations and Interpretations
Employee Benefits Security Administration
Attn: Fiduciary Rule Examination
Room N-5655
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

Re: RIN 1210-AB79 – Definition of the Term "Fiduciary" - Comments Regarding the Economic Impact Review Ordered by the President's Memorandum Dated February 3, 2017

Ladies and Gentlemen:

Edward D. Jones and Co., L.P. ("Edward Jones") appreciates the opportunity to submit comments on the review of the fiduciary regulation ("the rule") and Regulatory Impact Analysis ordered by the President's Memorandum to the Department of Labor ("DOL"), dated February 3, 2017, examining the ability of investors to gain access to retirement information and financial advice under the Employee Retirement Income Security Act of 1974, as amended that redefines the term "fiduciary" under section 3(21) of ERISA and Section 4975(e) of the Internal Revenue Code of 1986, as amended.

The President's Memorandum asked, in part, the following questions:

(i) Whether the anticipated applicability of the Fiduciary Duty Rule has harmed or is likely to harm investors due to a reduction of Americans' access to certain retirement savings offerings, retirement product structures, retirement savings information, or related financial advice;
(ii) Whether the anticipated applicability of the Fiduciary Duty Rule has resulted in dislocations or disruptions within the retirement services industry that may adversely affect investors or retirees; and
(iii) Whether the Fiduciary Duty Rule is likely to cause an increase in litigation, and an increase in the prices that investors and retirees must pay to gain access to retirement services.

Edward Jones believes the President's Memorandum raises important questions that need to be analyzed before the rule is implemented. It is unfortunate that the DOL has chosen not taken into account the intent of the President's Memorandum in the release delaying the applicability date of the rule. Instead of making policy following a review of new, empirical evidence on the experience of firms attempting to implement the rule and the resulting impact on investors, the

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DOL has effectively implemented the very policy it was ordered to review by calling for the implementation of the "impartial conduct standards" on June 9th. We strongly urge the DOL to revisit this decision, and delay the whole regulation until the review ordered by the President can be completed.

We welcome the opportunity to provide practical feedback on the fundamental shortcomings of this rule and urge the DOL, at a minimum, to significantly rewrite the rule in order to empower investors to save for retirement security. In endeavoring to align our services to retirement investors to the requirements of the rule, we have determined that the final design of the rule will result in diminished access to retirement advice and increased costs for many investors. We believe the DOL has vastly underestimated the complexity and related costs associated with implementing the rule and any resulting benefits are far out-weighed by the increased costs to investors.

For the past year we have worked diligently towards implementation of the numerous profound changes to meet the rule's wide-ranging requirements. Among other things, we have worked to update client account agreements, to educate our clients on the impact of the rule and to create the supervisory structures and compliance procedures necessary to manage these changes. We have also examined the compensation and structure of retirement savings products and amended agreements with product manufacturers to ensure conformity with the rule and for the benefit of our clients.

The rule's 1,000 plus pages are incredibly dense and significant aspects of the rule remain unclear. For example, it is still unclear how to apply the so-called "neutral factors" to determine the compensation that can be received when offering transaction-based services. As explained further below, the lack of clarity in the rule, combined with the rule's complexity, has resulted in increased costs and more limited product and service offerings for retirement savers.

<u>The Fiduciary Rule limits investor's retirement savings options</u>

Edward Jones has historically served individual investors from all economic backgrounds and income levels. Our clients range from young families just starting to prepare for retirement to retirees who have successfully saved for a secure retirement. Today we serve more than five million individual account holders with IRAs. We have never imposed account minimums for transaction-based services nor established separate service options, such as call centers, for clients with more modest resources.

The rule fundamentally alters the delivery of investment advice to retirement savers. Investors will have reduced access to information and guidance as a result of the rule. The rule will also lead to significant changes in retirement

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service offerings throughout the financial services industry, including increased account minimums. These higher account minimums are necessary given the additional due diligence, documentation and disclosure requirements resulting from the rule. The impact of these changes will result in fewer choices and options in how to save for retirement and will be particularly detrimental to low and moderate-income investors who will see service offerings limited or eliminated.

As a result of the rule, Edward Jones will be implementing account minimums for all retirement savers. The imposition of minimum account sizes will mean that low and moderate-income investors and younger investors who may only be able to invest $500 or $1000 per year as they begin saving for retirement security will no longer receive personal service from a financial advisor through our transaction services. At the same time, these investors may not be able to meet the minimums associated with our fee-based solutions – leaving these investors with fewer options to save for retirement. We also anticipate many other financial advisors will review the fiduciary rule's onerous, inflexible and time-consuming requirements and choose higher account minimums for their practices than those established by the firm, resulting in even more investors losing access to meaningful guidance and assistance to save for a secure retirement.

<u>The Best Interest Contract ("BIC") Exemption is unworkable for many investors</u>

Historically, many low and moderate-income investors have opted to invest through transaction-based compensation structures rather than fee-based advisory programs. The DOL attempted to provide investors with the ability to work with their financial advisors on a transactional basis by offering the BIC exemption.

The BIC exemption's new and poorly-defined conditions have led to significant changes in retirement service offerings throughout the financial services industry, including eliminating brokerage services for IRA investors, limiting investment options and increased account minimums. This will lead to higher costs for investors and more limited access to financial advisors resulting in less retirement savings.

Our firm is planning to offer a transaction-based account to retirement savers who have at least $100,000 in qualified retirement assets at the firm. While the firm is offering this account to preserve investor choice, changes required by the rule mean that many low and moderate income investors will no longer be able to use the transaction-based model to save for retirement. Instead these investors will be limited to using a fee-based program at a potentially higher cost.

<u>The BIC exemption harms retirement savers by limiting access to mutual funds</u>

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The BIC contractual arrangement permits some transaction-based practices, but also imposes new limitations on the products that may be offered and services available based on the application of other rules promulgated by the DOL. For example, the BIC exemption imposes new limitations on the compensation a financial advisor can receive, restricting the receipt of variable transaction-based compensation to ill-defined "neutral factors", such as the skill of the financial advisor, the complexity of a retirement product and the time spent explaining the product's features. Because of these requirements, mutual funds, which are foundational to the retirement savings of millions of investors, will not initially be offered in our transaction-based account.

The challenge presented by the BIC exemption has resulted in the mutual fund industry considering the development of new share classes to meet the rule's requirements, namely the so-called "clean" shares and T-shares. "Clean" shares and T-shares present significant limitations to investors. For example, "Clean" shares and T-shares do not permit load-waived exchanges between funds increasing costs to investors to diversify their portfolios. "Clean" shares and T-shares also do not permit rights of accumulation where investors incur lower sales loads based on the amount invested over a period of time.

In the near term investors will not have access to mutual funds in transaction-based retirement accounts. Even when mutual fund share classes become available that meet the rule's requirements, investors will not have the same rights as they have today. These changes to the way mutual funds can be used to meet their retirement savings goals will potentially harm millions of investors.

The Grandfather provision in the rule is unworkable for many investors

The DOL appropriately included a grandfathering provision in the rule to permit investors to hold existing IRA assets. The grandfathering provision enables investors to continue contributing to this account through automatic purchases and reinvest dividend and interest payments if the process to do so was established before the applicability date. The DOL also permits the sale of investments and the exchange of most mutual funds within fund families in the grandfathered account.

While the inclusion of a grandfather provision was beneficial and necessary for existing retirement savers, the DOL has once again imposed overly prescriptive requirements that significantly undermine the utility of this provision. We have provided below a number of examples of the need for a broad, clear and comprehensive grandfather provision and how the grandfather provision as currently written will not serve the best interests of investors.

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An overarching concern with the rule and the grandfather provision is the unnecessary complexity and confusion that will result from clients being required to open multiple IRA accounts. Because investors have limited ability to contribute to grandfathered accounts, it is conceivable that in the future investors will have four IRA accounts due to the current rule: grandfather, transaction-based, fee-based and a fixed annuity account. The fixed annuity account is indirectly required due to the unique compensation limitations imposed on this retirement savings product under the revised PTE 84-24.

This myriad of accounts will lead to additional and unnecessary complexity as financial advisors and investors determine and document the appropriate account for contributions and distributions. Financial advisors and investors discuss a number of considerations in connection with contribution and distribution requests, particularly potential tax implications of the account and asset selected. That the fiduciary rule effectively requires the creation of multiple accounts further complicates this already complex set of considerations, likely resulting in higher costs to the investor, challenges in properly diversifying investor's assets to meet retirement goals, and no corresponding benefit.

Similarly, the grandfather provision has imposed unnecessarily restrictive limitations on automatic purchase plans put in place prior to the applicability date. For example, an investor establishes an automatic purchase by sending $100 each month from their bank account to an Edward Jones IRA. The investor wishes to turn off this automatic purchase due to confronting an unexpected expense or a loss of employment. The investor is permitted to discontinue the automatic purchase plan, but is unable to restart it as the grandfather provision does not permit automatic purchases plans to be reinitiated after the applicability date. In order to restart the automatic purchase plan the investor would be required to open a new account and incur additional costs. Once again, the grandfather provision's overly restrictive requirements forces investors to consider less convenient, more costly alternatives rather than serving the best interest of the investor.

An additional restriction imposed by the grandfather provision is limiting investors' options should they decide to transfer their grandfathered account to another financial services firm. Grandfathered assets may not be transferred to another firm and maintain grandfather status under the current rule. The DOL effectively forces investors to remain with a financial professional or provider who may not be meeting their retirement savings needs or expectations or lose the benefits of remaining in a grandfathered account.

DOL should consider the impact on retirement savers of the concerns raised in our July 21, 2015 comment letter that were not addressed in the rule

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We have attached the firm's July 21, 2015 comment letter which includes a more fulsome discussion of the following concerns:

- The DOL's narrow definition of "education" and overly broad definition of "investment advice" will result in a loss of guidance and assistance to investors at a time when retirement savings rates are already troubling low.
- The lack of a workable "seller's carve-out" effectively prohibits individual investors from receiving information from their financial advisor about additional services that may be beneficial to them.
- The rule's rollover provisions will make it more difficult for investors to receive meaningful guidance from financial advisors about the range of options available when changing jobs, heightening the risk that investors will cash out retirement savings.
- The rule will significantly limit the ability of small businesses to establish and maintain retirement plans by curtailing the ability of financial advisor to provide necessary education and guidance.

We believe all of these concerns need to be addressed by the DOL as part of the study mandated by the President's memorandum.

<u>The DOL should work with the SEC and FINRA on a uniform best interest standard</u>

The DOL should coordinate with the SEC and FINRA on creating a uniform best interest standard of care. The DOL should leverage the SEC and FINRA's expertise on investor protection to develop a best interest standard that is harmonized with the existing framework of rules and regulations imposed on financial services providers.

The standard should preserve investor options to a wide range of retirement products and choice in how to pay for these services. Investor protections could be strengthened by simplifying the procedures required to receive variable compensation and through appropriate and practical disclosure of conflicts in language readily-understood by the investor, utilizing existing principles in the federal securities laws and FINRA rules.

<u>Conclusion</u>

Edward Jones appreciates the opportunity to provide comments on the questions raised by the President's Memorandum. We regret that the DOL has acted to

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partially implement the rule before completing this mandated review, essentially foreclosing further analysis, given the rule's complexity and the impact it will have on millions of retirement savers. We urge the DOL to revisit this decision, and to work with the SEC and FINRA to significantly rewrite the rule to adopt a uniform best interest standard of care that promotes investor protection, preserves investor choice and options, and ensures investors have access to meaningful assistance and guidance from financial professionals.

If you have any questions regarding the comments contained in this letter please contact me at 314-515-9711.

Sincerely,

Jesse Hill
Principal – Government and Regulatory Relations