Measuring Costs and Benefits of DOL’s Fiduciary Proposal

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Why Is the Cost-Benefit Analysis Crucial?

ICI agrees with DOL: Financial advisers should be held to a best-interest-of-their-clients standard

But DOL’s proposal creates a high-cost, high-burden approach

ICI has suggested changes to make rule workable, less costly

To justify its costly solution, DOL must demonstrate large benefits from rule (i.e., high costs from current system)

Unfortunately, DOL’s impact analysis falls far short
How DOL’s Impact Analysis Went Astray

» DOL relies on academic studies that:
  » Don’t reflect current market competition or performance data
  » Reflect performance experienced by funds—not by investors
» DOL misapplies results of those academic studies
» DOL should have:
  » Done its own analysis with current fund performance data
  » Used sales- or asset-weighted data to reflect investor experiences
Do Broker-Sold Funds “Underperform”?  

<table>
<thead>
<tr>
<th>Performance of broker-sold funds</th>
<th>Percent annual rate</th>
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<tbody>
<tr>
<td>DOL/CEA claimed underperformance of broker-sold funds</td>
<td>-1.00%</td>
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<tr>
<td>Performance of investors in broker-sold funds relative to their Morningstar averages (2008–2014)</td>
<td>+0.27%</td>
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<tr>
<td>Performance of investors in broker-sold funds relative to retail no-load funds (2010–2014)</td>
<td>-0.07%</td>
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DOL’s Rule Could Strand Small Investors, Who Hold 76% of Traditional IRA Accounts

Percentage of total by size of account balance

- Less than $25,000: 48% of IRA investor accounts, 81% of IRA assets
- $25,000 to < $50,000: 14% of IRA investor accounts, 10% of IRA assets
- $50,000 to < $100,000: 14% of IRA investor accounts, 5% of IRA assets
- $100,000 or more: 24% of IRA investor accounts, 4% of IRA assets

Source: The IRA Investor Database™

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Net Cost of DOL Proposal: $109B over 10 Years

Cost(-)/Benefit(+)  
Billions of dollars

- Underperformance of investors in broker-sold funds relative to investors in no-load funds

- IRA investors with balances >$100,000 shift to fee-based advisers and pay more

- IRA investors with balances < $100,000 are shut out of advice market and make costly mistakes

Total net cost to IRA investors: -109

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Thank you.