

Insurance and financial advisors anticipate that the Department of Labor’s “best interest” rule for advisors who provide retirement planning products would create cost increases for their practices and would have serious consequences for their clients.

According to the survey of 1,111 advisors conducted in May, nearly 87 percent of respondents said they anticipate that implementation of the DOL rule would result in higher errors and omissions insurance premiums for their practices. Of those, 58 percent said they expect E&O premiums to increase “substantially.” The rule would increase liability for advisors by requiring them to enter into legal contracts with clients and opening them to state and federal lawsuits. Only 4 percent of respondents said they do not believe the DOL rule will result in increased E&O costs, while 9 percent are not sure.

Increasing costs and contractual obligation are likely to impact advisors’ relationships with existing clients. Currently, only 26 percent of respondents require clients to maintain minimum account balances. Some 46 percent of those who currently impose no account minimums said they would likely do so, should the DOL rule go into effect, and 41 percent said they are not sure. Of this group, 21 percent said they would require minimums of \$100,000 or more.

The contract requirement in the DOL proposed rule is likely to harm advisors’ relationships with existing clients, 61 percent of respondents said. Some 35 percent said the harm done to those relationships would be “significant.” Only 4 percent of respondents said the contracts would improve relationships with existing clients, while 36 percent said either the contract will have no effect on relationships or they are not sure.

Two-thirds of the advisors who responded to the survey said they anticipate that the proposed DOL rule would result in their losing clients, because clients are unwilling to sign contracts, because cost increases would make it impossible for them to serve small or medium-size accounts or for other reasons. An additional 24 percent were not sure whether the DOL rule would result in a loss of clients.

The advisors who responded to the survey provide a number of important retirement planning products for their clients. Respondents complete an average of 153 fixed annuity sales, 627 variable annuity sales, 3,895 401(k) plan rollovers and 3,235 IRA rollovers in a year.

1. What is your gender?		
Answer Options	Response Percent	Response Count
Female	15.4%	171
Male	84.6%	940
<i>answered question</i>		1111
<i>skipped question</i>		0

2. What is your age?

Answer Options	Response Percent	Response Count
21-29	2.7%	30
30-39	11.8%	131
40-49	13.7%	152
50-59	29.1%	323
60 or older	42.8%	475
<i>answered question</i>		1111
<i>skipped question</i>		0

3. How would you describe your professional role?

Answer Options	Response Percent	Response Count
Insurance agent, broker, or insurance and financial advisor	77.0%	856
Financial planner, financial advisor, wealth manager	23.0%	255
Other (please specify)		43
<i>answered question</i>		1111
<i>skipped question</i>		0

4. What practice area(s) do you work in?

Answer Options	Response Percent	Response Count
Life and annuities	96.9%	1077
Health and employee benefits	43.5%	483
Financial advising and investments	72.1%	801
Long term care	76.1%	846
Disability	70.3%	781
Property and casualty	23.0%	255
Other (please specify)		55

<i>answered question</i>	1111
<i>skipped question</i>	0

5. Which of the following best describes your employment status?

Answer Options	Response Percent	Response Count
Independent	28.0%	311
Captive	25.6%	284
Semi-captive	17.7%	197
Broker	3.5%	39
Financial advisor	14.3%	159
Manager	3.3%	37
Owner/partner	6.5%	72
Retired	1.1%	12
Other (please specify)		20
<i>answered question</i>		1111
<i>skipped question</i>		0

6. How long have you been in your current profession?

Answer Options	Response Percent	Response Count
0-5 years	10.4%	115
6-10 years	10.0%	111
11-15 years	10.4%	115
16-20 years	8.3%	92
More than 20 years	61.0%	678
<i>answered question</i>		1111
<i>skipped question</i>		0

7. Which of the following best describes you?

Answer Options	Response Percent	Response Count
Registered representative of a broker-dealer	58.0%	642
Registered investment adviser (RIA)	3.1%	34
Both a registered rep and an RIA	21.7%	240
Neither	17.2%	190

<i>answered question</i>	1106
<i>skipped question</i>	5

8. How would you describe the size of your broker-dealer?

Answer Options	Response Percent	Response Count
Large	44.8%	496
Medium	24.1%	266
Small	15.2%	168
Not applicable	15.9%	176
<i>answered question</i>		1106
<i>skipped question</i>		5

9. Do you anticipate that the cost of your E&O coverage will go up if the proposed Department of Labor regulation requires you to be a fiduciary when dealing with retirement-planning clients?

Answer Options	Response Percent	Response Count
Yes (substantially)	50.3%	531
Yes (modestly)	9.8%	103
Yes (not sure by how much)	26.6%	281
No	4.4%	46
Not sure	8.8%	93
I do not carry E&O coverage	0.2%	2
<i>answered question</i>		1056
<i>skipped question</i>		55

10. If the DOL regulation requires you to sign a contract with existing clients before providing them further advice or recommendations, in general how do you think this will affect your relationships with those clients?

Answer Options	Response Percent	Response Count
It will significantly harm the relationships	34.7%	366
It will modestly harm the relationships	26.1%	276
It will have no effect on relationships	17.7%	187

It will modestly improve the relationships	2.2%	23	
It will significantly improve the relationships	1.3%	14	
Not sure	18.0%	190	
		<i>answered question</i>	1056
		<i>skipped question</i>	55

11. How many of the following transactions do you typically complete in a year?

Answer Options	Response Average	Response Total	Response Count
Variable annuity sales	627.31	662,438	1056
Fixed annuity sales	153.05	161,625	1056
401(k) plan rollovers	3,894.55	4,112,646	1056
IRA rollovers	3,234.71	3,415,853	1056
		<i>answered question</i>	1056
		<i>skipped question</i>	55

12. Do you currently require account minimums for retirement account clients?

Answer Options	Response Percent	Response Count	
Yes	25.7%	271	
No	74.3%	784	
		<i>answered question</i>	1055
		<i>skipped question</i>	56

13. Under the DOL proposal, do you anticipate that you would need to begin imposing account minimums on retirement clients?

Answer Options	Response Percent	Response Count
Yes (minimum of \$100,000 or more)	21.3%	166
Yes (minimum of \$50,000 to \$99,999)	16.3%	127
Yes (minimum of \$25,000 to \$49,999)	6.2%	48
Yes (minimum	2.3%	18

of less than \$25,000)			
No	12.7%	99	
Not sure	41.2%	321	
<i>answered question</i>			779
<i>skipped question</i>			332

14. Do you anticipate that the DOL rule would result in you losing clients, because clients are unwilling to sign a contract, because you would no longer be able to serve medium or small accounts, or for other reasons?

Answer Options	Response Percent	Response Count	
Yes	66.0%	690	
No	9.8%	103	
Not sure	24.2%	253	
<i>answered question</i>			1046
<i>skipped question</i>			65