

Department of Labor Seeks Collaboration With Asset Funders Network in Strengthening Retirement Security for Millions of Middle and Working Class Americans

Since the 1970s, there has been a sea change in the world of retirement savings with the responsibility of managing savings shifting from professional fund managers for large defined benefit plans, to individual account holders with their own participant-directed accounts such as 401(k)s. With this, millions of Americans are now responsible for investing their retirement savings, and have become increasingly reliant on paid professional guidance on where to put their money. As consumers paying for investment advice, they deserve to receive the best guidance for making their nest eggs grow.

Back in 1975, the burden of managing retirement savings primarily sat with large, private pension fund managers, which covered over 27 million active participants and held assets totaling almost \$186 billion as part of defined benefit pensions. At the time, 401(k) plans did not exist and Individual Retirement Accounts (IRAs) were in their early infancy. More than 35 years later, the situation is very different. By 2008, those defined benefit plans that covered 27 million people in 1975 now cover 19 million people, while individual-account-based defined contribution plans including 401(k)s, which did not exist in 1975, now cover 67 million people. Another 50 million people own IRAs with most of the assets in these accounts the result of rollovers from employer-sponsored retirement plans. Total assets in individual-account-based defined contribution plans are now valued at \$8.6 trillion compared to \$2.6 trillion in defined benefit plans.

As the Baby Boomers retire this decade and next, the largest wealth transfer in U.S. history will take place with the movement of retirement savings out of the relative safety of the employer-sponsored plan environment to the IRA marketplace. And, this group of consumers is vulnerable to self-serving and predatory practices from some in the retirement savings industry. Many advisers and brokers, for example, can be motivated by revenue sharing arrangements to steer clients into high-fee investments which will net the broker or adviser a higher commission than lower fee investment products and rob people of a significant portion of their retirement savings. The Department of Labor is working on a consumer protection initiative to prevent brokers and investment advisers from ducking their fiduciary responsibility under the law governing 401(k), similar accounts and IRAs, when they are paid by employers or workers to provide investment guidance within plans and when workers rollover their account balances into the IRA market.

The department has authority under the Employee Retirement Income Security Act (ERISA) to regulate 401(k) and other employer-sponsored benefit plans, including when funds from these plans are rolled over in to IRAs. In this case, ERISA mandates a high standard of care requiring advisers to always put their clients' interest first, to serve as a

fiduciary. The department is trying to amend its own 1970's wording on the definition of a fiduciary that would classify a broader group of advisers and brokers as fiduciaries so they can no longer get away with providing investment advice that is beneficial to them, and costly and harmful to their clients.

The department is interested in working with the Asset Funders Network – in their position as thought leaders in the field of savings and asset-building and communicators with hundreds of nonprofit and community groups – to help get the word out on its consumer protection effort that will benefit millions of American households.

The Assistant Secretary from the department's Employee Benefits Security Administration (EBSA), Phyllis Borzi, is interested in talking with Asset building funders in person, via webinar, or at local convenings. In addition, the department may host a series of regional events in the next couple months on this and other retirement security issues, and would be interested in working with AFN and its members to help publicize the events, identify event space in the selected cities, identify panelists and speakers, and assistance with other planning activities.

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