

7 Pieces of Bad Advice FMOs Are Giving Their Advisors About the DOL Rule

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The Department of Labor Fiduciary Rule - it's the most impactful rule to hit the financial advisory industry in decades. In fact, one could argue that it will be the most significant rule governing financial professionals since the Investment Advisers Act of 1940. Yet, even that piece of legislation didn't impact a high percentage of financial licensees like this rule will.

The greatest piece of irony in all of it is that the rule is focusing on financial advisors putting the interest of their clients first, yet many of the organizations that financial advisors rely on the most aren't doing the same. I'm referring to insurance marketing organizations, commonly referred to as IMOs or FMOs. Not only are many of these organizations giving advice that may not be in their advisor's best interest, in some instances, they may be outright lying to the very individuals that have afforded them the ability to exist in the first place.

Since the rule was announced on April 8, 2016, we've heard some doozies. If you've been given this bad advice, it might be time to reevaluate your relationship with your FMO. There are certainly a few organizations that are well-positioned to thrive in a post-DOL environment. An advisor's best bet is to align with a financial institution that can accommodate the type of business they want to do, in a manner that will comply with the rule. While you're doing your homework, be on the lookout for this bad advice:

#1: Your business won't be affected by the rule.

The more you study this rule, the more you'll begin to realize the far-reaching implications for financial advisors and the financial institutions with whom they are connected. Regardless of your licensure, this rule will change the way you do business. Period. End of story. Insurance-licensed-only individuals will be forced to find a firm that can operate as their financial institution so they can continue conducting business in any way, shape, or form that looks like retirement account advice. Registered representatives will now be held to a higher standard from what they've been used to with the suitability standard. (Guess what: Your sales process is about to change.) Even investment advisors who have been operating under the fiduciary standard will now have to prove it, since it is now a rule and not just a principle. Products will be changing. Distribution of those products will be changing. We're in a new era.



#2: Life insurance isn't affected by this rule

Many IMOs and FMOs are touting that permanent life insurance is the solution to avoid this rule. Bad news: If you are giving advice to purchase a life insurance policy as a retirement savings vehicle as opposed to ANY other type of retirement account, you've now just given advice that would fall under the new best interest rule. Do you tell clients to put some of their required minimum distribution (RMD) into a life insurance account? You've just given retirement account advice, and that would fall under the rule. So, who will be your "financial institution" for these transactions? Has your FMO/IMO been granted financial institution status?

#3: We can still give you perks and incentives once the rule goes into effect.

Technically, that statement isn't a direct lie. That's because the FMO/IMO could still give you perks or incentives for the business you conduct. That's because it isn't their neck on the line if they give you soft dollars or production reward trips. It's yours. The rule regarding establishing anti-conflict policies reads as follows:

Financial institutions nor its Affiliates/Related Entities use or rely on quotas, bonuses, contests, special awards, differential compensation or other actions or incentives that are intended or would reasonably be expected to cause financial professionals to make recommendations not in the Best Interest of the Retirement Investor are prohibited.

Pay close attention to the last line. They are prohibited. Notice that it didn't say "must be disclosed." The rule is very specific about this. In fact, if there was one practice that the rule was trying to rid the industry of, it's the side deals, sales competitions, and performance-related bonuses. If your FMO/IMO is telling you that they can still do this, but that it just has to be done differently, ask them if they'll be there to defend it in court with you. There's a famous quote from Warren Buffett that says, "Only when the tide goes out do you discover who's been swimming naked." When FMOs and IMOs can no longer engage in this practice, we'll begin to see who is presenting genuine value to their advisors, and who isn't.



#4: The DOL Rule will get overturned.

In all fairness, we won't know if this is a lie for some time yet, so we've categorized this as bad advice. Who knows, it could get overturned down the road, although it would be hard to imagine that toothpaste ever going back in the tube once we reach the first implementation date. Would you want to be the politician that says, "I'm overturning a rule that mandates financial advisors should act in their clients' best interest?" Only if you weren't planning on being re-elected. (Don't get me wrong, there are definitely problems with how the DOL rule is currently being handled.)

Is there a chance one of the lawsuits will impact the final implementation of the rule? Certainly. But the likelihood of the rule getting completely overturned is pretty slim. To stick your head in the sand and pray for this to be overturned is just not a smart business move.

#5: The insurance company will be your financial institution.

If you have been following the rule closely, you've undoubtedly recognized that there has been a heavy emphasis placed on the concept of the financial institution, or FI for short. Essentially, the FI is the entity that will be reviewing the transaction and determining whether it has met the best interests requirements. The rule defines an FI as a bank, insurance company, registered investment advisor (RIA), or a broker-dealer. Insurance marketing organizations (IMO/FMOs) have been left out of the definition. This has caused FMOs and IMOs a great deal of stress, since the lion's share of their business is affected by this rule, but they aren't in control of their own destiny since they aren't automatically considered a financial institution. With that in mind, many of them have told advisors that the insurance company would be the financial institution. While some insurance companies have stated that they are considering being the financial institution on the transactions that require a Best Interest Contract, most industry insiders suggest that such a thing just isn't feasible. Many insurance companies have stated that they would not consider being the financial institution on the contract, and those that haven't stated so are likely highly concerned with the added liability involved with such a transaction. This leaves the FMO/IMO in a peculiar position. As a result, they are giving out one of the next two pieces of "advice."

#6: We will be your financial institution.

As mentioned earlier, FMOs/IMOs were not included in the definition of financial institution. However, the rule did allow for other financial entities to be granted financial institution status. The danger in relying on this as an advisor is twofold. For starters, there's no guarantee that the Department of Labor will grant them FI status. It's unclear on how willing the DOL will be when it comes to granting FMOs/IMOs FI status. The second problem with relying on an FMO/IMO to be your FI is whether they are capable of acting in such a manner. Being a financial institution will require significant staffing resources and extensive training on a part of the business that is completely foreign to many of them: compliance review of transactions. In addition to being an FMO/IMO, our firm (USA Financial) operates as a broker-dealer and RIA (and has for years). I'll share something with you - there's nothing more difficult than telling an advisor that the business they've submitted isn't up to snuff. Most FMOs/IMOs have been fighting the opposite fight (trying to get an insurance company to accept more of your business). When your neck is on the line, do you want to hitch your wagon to a firm that's never said "no" to any piece of business, especially when they don't have an alternative way to be compensated if they do say no?

#7: Your best bet is to set up your own RIA.

In theory, establishing your own RIA would be a potential solution. The trouble is that it isn't the right solution for MOST advisors. I'd like to invite you to think creatively on this. Imagine you are an FMO/IMO. What is the solution that would allow you continued access to your existing advisor relationships, while avoiding outside business hurdles (broker-dealers) AND afford you the ability to keep doing business they way you always have without the liability on the very transactions that compensate you? You guessed it. Tell your advisors to establish their own RIA.

For some financial professionals, establishing their own RIA may be the right business decision. However, if the DOL fiduciary rule is the primary motivation for you to establish the RIA, you may want to re-evaluate the decision. State-registered RIAs will find it more difficult to comply with the increasing compliance demands that will continue to mount as our industry goes through some pretty significant regulatory changes.

Ready for some good advice?

The most important thing an advisor can do right now is to educate themselves on how the rule will impact their business, and evaluate their current business relationship(s) and identify who will be their financial institution moving forward once the DOL rule goes into effect.

Here's the truth: Never before has it been more important to ensure you have the right financial institution relationship. Make sure your business models are in sync.

Opportunity

Shortly after the final DOL rule was launched, USA Financial began conducting specific sessions focused on identifying how advisors can thrive in a post-DOL environment. Information about the next session is enclosed. To find out more, visit www.DOLbootcamp.com

I hope to see you soon!

All the best,

Mark R. Mersman
Chief Marketing Officer
USA Financial



About USA Financial

Founded on April 1, 1988, USA Financial is a privately owned, independent financial services firm serving both clients and financial advisors throughout the country. The firm is committed to empowering financial advisors by helping them grow their practice and serve their clients with a wide array of financial solutions and technology offerings. The USA Financial family of companies includes USA Financial Securities (FINRA-registered broker-dealer and registered investment adviser), USA Financial Insurance Services (insurance wholesaler), USA Financial Portformulas[®] (a registered investment adviser and formulaic trending money manager) USA Financial Exchange (a UMA/TAMP platform), USA Financial Plug-N-Run[®] (technology and marketing firm), and USA Financial Media (multimedia firm and producer of the nationally syndicated USA Financial Radio Show). Each of these companies plays a vital role in the overall value proposition offered by USA Financial to its advisors and clients. To find out more, visit www.usafinancial.com.

DOL FIDUCIARY RULE: ADVISORY PRACTICE BOOT CAMP + DISCOVERY DAY

December 8 & 9, 2016
or
January 19 & 20, 2017

The single-largest regulatory rule change to hit the financial industry in decades is about to transform the way EVERY financial professional does business.

This two-day boot camp will answer an important question for financial professionals: *How can you survive, thrive, and leave your competition in the dust?*

You may think you are ready for this regulation. In fact, you might already be adhering to a fiduciary standard with your clients. How will you prove it?

THIS BOOT CAMP WILL ANSWER QUESTIONS SUCH AS:

- ◆ What's the latest with the recent lawsuits that are attempting to stop the rule?
- ◆ What changes do I need to make to my business model to prepare for this new rule?
- ◆ How will products and revenue be affected?
- ◆ What liability will I have, and how can I best protect my practice?
- ◆ Should my appointment process change?
- ◆ How will this affect my marketing efforts?
- ◆ What operational changes should I anticipate within my business?
- ◆ Should I consider obtaining different professional licensures?

BOOT CAMP TOPICS

Day 1

Introduction & Welcome

DOL Fiduciary Rule overview

- Understanding the magnitude of the new rule
- Defining the rules of engagement in a post-DOL world
- What to expect from your financial institutions

Optimal Business Structure

- Corporate makeup of USA Financial
- Industry trends
- What you do vs. how you get paid
- Creating a zero-competition environment
- The importance of having the right institutional partner moving forward

Comprehensive Marketing in a New Age

- The changing dynamic of direct mail marketing
- Defining what, how, and why within your corporate brand
- Simple strategies to evaluate current and future marketing efforts
- Opportunities with digital marketing
- Establishing credibility and trust with your brand

Creating Tangible Value

- Refining your sales process
- The exact deliverables to use with prospective clients
- Leveraging an engagement process to create a fork in the road of the sales process
- Simplifying and replicating the same system and process for increased efficiency

Asset Management Strategies for Today's Investor

- The three critical questions every investor should be able to answer about their accounts
- Simple stories that may help investors understand asset management better
- Why today's advisor can benefit from asset managers that employ risk-management strategies
- How will you justify your current/desired AUM fee(s)?

Compliance Culture

- What compliance changes to expect in light of the DOL fiduciary ruling
- How advertising/marketing will be handled in a post-DOL era
- New business procedural changes forthcoming for advisors and institutions
- How to properly document your fiduciary duty (and prove it later)

Technology

- Leveraging technology to create a better client experience
- The role technology will play with the new DOL ruling
- Finding technology partners that communicate with each other
- How operations uses technology to assist with determining "best interests"
- How technology can be used to create and justify value within your practice

Changing the Conversation

- How properly handling risk tolerance will be a game-changer with the new DOL ruling
- Why risk management solutions may help you meet fiduciary obligations
- How investment performance fits into the fiduciary conversation

Day 2

Coaching/Consulting/Practice Management

- How to think about human capital given the regulatory landscape of today
- Forecasting and managing practice growth during a period of massive industry change
- Why the DOL fiduciary ruling will be a major turning point for the financial advisory profession (and how to thrive on the change)

Executive Panel Q & A on Department of Labor Fiduciary Ruling

- How will "best interests" be defined?
- Who will enforce this rule?
- What changes to the rule should we anticipate?
- How will advisor compensation be affected?
- Why many advisors may no longer be able to sell annuities as an OBA
- Why other financial incentives may come to an end

WHO SHOULD CONSIDER ATTENDING

- ◆ Financial professionals who currently work as an asset gatherer and manage client relationships where qualified retirement accounts represent an integral part of their business.
- ◆ Individuals who are willing to embrace change in light of industry demands (and realize it may actually be a good thing).

HOW TO REGISTER

To reserve a seat, you must speak directly with a Business Development Vice President at USA Financial. Call 888-444-0125 ext. 1.

You can express your interest by calling or by visiting www.DOLBootCamp.com.

COST TO ATTEND

The cost for attendance, travel/lodging, and meals on event days will be covered by USA Financial affiliates for qualifying advisors.

ABOUT THE EVENT SPONSOR: USA FINANCIAL



USA Financial is an industry pioneer committed to the advancement of independent financial professionals. Headquartered on the outskirts of Grand Rapids, Michigan, the firm is committed to empowering financial advisors by helping them grow their practice and serve their clients with a wide array of financial solutions and technology offerings. The USA Financial family of companies includes USA Financial Securities (FINRA-registered broker-dealer and registered investment adviser), USA Financial Insurance Services (insurance wholesaler), USA Financial Portformulas[®] (a registered investment adviser and formulaic trending money manager) USA Financial Exchange (a UMA/TAMP platform), USA Financial Plug-N-Run[®] (technology and marketing firm), and USA Financial Media (multimedia firm and producer of the nationally syndicated USA Financial Radio Show). Each of these companies plays a vital role in the overall value proposition offered by USA Financial to its advisors and clients.

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