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United States Senate Committee on Health, Education, Labor, and Pensions
Subcommittee on Employment and Workplace Safety
"Restricting Advice and Education: DOL's Unworkable Investment Proposal for American Families and Retirees"
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Thank you Chairman Isakson, Ranking Member Franken, and Members of the Subcommittee for the opportunity to provide Rebalance IRA's views about the Department of Labor's proposed Fiduciary Duty Rule.

I am the co-founder and Managing Director at Rebalance IRA. There, I have assembled the infrastructure and service delivery methods that bring our firm's clients sophisticated retirement investment advice and the personalized treatment offered by top-tier wealth management firms, for a fraction of the cost. I also am a long-time member of the Board of Directors of the North Carolina Outward Bound School, sitting on its Finance Committee, which oversees the School's $14 million endowment. In addition, I helped establish an Outward Bound scholarship program for inner-city teens, giving them the opportunity to develop critical life skills. I received my B.A. in economics, with distinction, from Tufts University, and an M.B.A. from Harvard Business School. I am a registered Investment Representative and I hold a Series 65 securities license.

Rebalance IRA is a Registered Investment Advisor firm with approximately $275 million AUM, and serves more than 500 clients. It is a relatively new, national investment advisory firm that combines top-quality retirement expert investment advisors with low-cost, highly-diversified retirement portfolios for everyday Americans. Our firm's Investment Committee includes Professor Burton Malkiel (Princeton University), Dr. Charles Ellis (who chaired the Investment Committee of the famed Yale Endowment), and Jay Vivian (who managed IBM's $100+ billion corporate pension fund). Our firm embraces a fiduciary legal standard, always putting the interest of our clients' front and center. We provide retirement investment advice without commissions and without conflicts between our interests and those of our clients.

Rebalance IRA is part of a broad trend of new investment advisory firms that seek to provide consumers with a fundamentally better set of retirement investment options, offering retirement investment advice to clients at all income levels for very modest fees. This trend of disrupting the established investing order is about three years old and has met considerable success in the marketplace. Tens of thousands of clients have switched over to firms like ours from brokerage firms and others. These "investment innovators" are growing quickly, and, by some measures, to date this group of firms collectively manages more than $15 billion in client assets.

I would like to share the Rebalance IRA perspective on the Department of Labor's proposed update to its fiduciary duty rule, discussing our clients' experiences, the problem in the retirement investment advice industry, the need for an updated fiduciary duty rule, and our firm's business model.

Who We Serve

At Rebalance IRA, our clients seek our help because they need advice about how to manage their retirement savings and how to understand the increasingly complex world of investment products. Our clients come from all walks of life including nurses, school teachers, plumbers, lawyers, welders, professors, police, doctors, farmers, government employees, – i.e. regular Americans.

We are in the marketplace every day, dealing with everyday Americas as they strive to find the best way to manage their retirement investing savings. We see firsthand the shortcomings of the current regulations governing advice given to retirement savers.

I would like to begin by telling a story about one of our clients, and her experience with conflicted advice. She is a 37-year old woman from California, married with three children. In managing her family's retirement investments, she had "inherited" a stockbroker from her family. She used this broker for some time, believing she was only paying the typical 1 percent fee for investment advice and entrusted him with her family's retirement nest egg.

Later she was introduced to Rebalance IRA, and reached out to learn more about our firm's services. Upon our review of her retirement investment statements, we found that her broker had invested her retirement funds in actively-managed mutual funds, which contained a significant second level of fees. In addition, her stockbroker had recommended a new actively-managed mutual fund, with a front-end load that took 5% off the top. When all was said and done, she was paying over 2.3 percent in annual fees, not the typical 1 percent. What's worst**—**she had no idea. Her broker never disclosed the fees or conflicts to which her accounts were subject. In the end, Rebalance IRA was able to reduce the annual "all-in" cost for this client's retirement accounts by nearly 70 percent, or by over $5,000 per year. We also invested her funds in a more appropriate diversified set of retirement investment portfolios and implemented a disciplined risk management rebalancing system.

This client isn't alone. In fact, more than 30 percent of the Rebalance IRA client base comes to our firm directly following a "suboptimal" relationship with a brokerage firm. We refer to these clients as "*brokerage refugees.*" Just like her, these clients usually are shocked to find out that their "trusted" retirement investment advisor does not have a fiduciary obligation. In addition, these *brokerage refugees* consistently are surprised to discover that the investments in their retirement accounts frequently are burdened with a second level of fees at the investment vehicle level or fund-level fees. The *brokerage refugees* that we see at our firm average over 2.37 percent per year of total (all-fee) fees in their brokerage retirement accounts.

It is important to keep in mind that, as with investment returns, investment fees compound over time and can eat away at retirement savings. While 2.37 percent per year may not sound like a large amount of money, over several decades this increasingly compounding fee burden can reduce a consumer's retirement nest egg by half if not more.

When Rebalance IRA takes on these *brokerage refugees* as clients of our firm, we immediately reduce their retirement investing fee structure by an average of 68 percent. In addition, our firm provides meaningful retirement investment advice to all of our clients. Rebalance IRA's advisors put in place a comprehensive retirement investing plan, and we provide our clients with best-of-breed, endowment-grade, low-cost retirement investment portfolios. And finally, we pair all of our clients with a highly qualified, two-person retirement investing team.

The Heart of the Problem

The lack of a consistent best interest advice is at the heart of the debate that we are having today. We have seen it firsthand, and we are troubled that others in the advisory industry are *legally* allowed to act in this manner, sometimes putting their own interest, or their firm's, ahead of their clients.

Consumers that we see typically thought that their investment advisor was acting in their best interest, which studies have supported. One study found 49 percent of investors assumed that investment advisors were required to act under a fiduciary standard, while 59 percent believed "financial advisors or financial consultants" had the same requirement.[1] Inconsistent and weaker standards should not be the norm for retirement savers, yet they are.

The current rules governing the standards for investment advice under the Employee and Retiree Income Security Act (ERISA) are outdated and filled with shortcomings and loopholes. These rules, first promulgated 40 years ago in 1975, were written when the retirement landscape consisted primarily of defined benefit plans, also known as traditional pensions. At that time IRAs had just been created a year prior and 401(k)s had yet to exist. Advice was not something that was in demand, because pensions were managed professionally for employees through their employer.

Today, that is not the case. Plans available to workers and retirees are dominated not by pensions, but by defined contribution plans such as 401(k)s and IRAs. These plans require workers and retirees to invest their savings on their own, yet many lack the level of expertise necessary to properly manage their retirement savings. This is why we are here—and why many others are in this industry—to specialize in providing people with advice necessary to invest and manage their retirement savings.

Unfortunately, the "help" many receive often is not in their best interest. The 40-year old rules allow brokers, insurance agents, and others offering retirement investment advice to put their own interest ahead of their clients. The investment products sold to retail investors can generate attractive commissions for these firms, yet has the potential to leave clients with underperforming investments and layers of fees.

The Solution

The Department of Labor has proposed a "fiduciary rule" requiring all financial professionals to avoid and mitigate conflicted advice when it comes to retirement investments. The proposed

[1] ANGELA HUNG ET AL., INVESTOR AND INDUSTRY PERSPECTIVES ON INVESTMENT ADVISERS AND BROKER-DEALERS 89 (2008).

rule would better cover advice largely unprotected today—especially in the $7 trillion individual retirement account (IRA) market. Expectedly, this has generated strong opinions on both sides of the issue, with a portion of the advisory industry who provide conflicted advice endeavoring to make this much-needed rule update a difficult battle.

Rebalance IRA strongly supports the proposed rule because it successfully follows a fiduciary standard that we feel investors and firms across the board should embrace. Committing to a best interest standard can be done, and it should be done, because American workers and retirees deserve advice given in their best interest.

Rebalance IRA provides retirement investment advice without commissions and without conflicts, which allows our firm to put each of our clients front and center. That is why we find it troubling that many who label themselves as financial advisors find this standard a difficult one to adopt, call the rule "unworkable," and claim that they are for a best interest standard without willing to commit to one at the end of the day. Unfortunately, this segment of the advice industry defends the status quo.

Millions of hardworking Americans simply want to be sure that they can make ends meet during their golden years. The Labor Department's proposed rule would give them the chance to do that by requiring those giving retirement investment advice to act in the best interest of their clients and comply with the fiduciary standard already embraced by Rebalance IRA and other investment innovators. A universal fiduciary standard, combined with full and fair disclosure, will help consumers make truly informed decisions about how best to manage their retirement investments.

Our Business Model Works

Currently, many brokerage firms and others providing retirement investment advice outside of a fiduciary standard are structured to maximize the sale of investment "products" and maximize profits, regardless of the implications for their clients. Often, they claim that small savers and small businesses will be the ones who lose out on the retirement investment advice that they need. Yet this ignores the fact that what small savers often get from brokers is not true advice, but rather a sales pitch disguised as advice. And, because retail investors by and large are not financial experts, they often cannot tell the difference between the two and, as a result, are susceptible to suffering harm from the recommendations they receive. Industry claims that small savers and small businesses will lose out on retirement investment advice also ignore the ever-growing options available today for individuals.

Rebalance IRA and other investment innovators such as Wealthfront, Personal Capital, and Financial Engines, are striving to provide retirement investors with fundamentally different and better investing options. Established industry companies, such as Vanguard and Schwab, are joining in this movement to find innovative ways to deliver high-quality, low-cost options to retirement savers to make the best of their nest egg.

This investment innovation trend already is delivering tangible benefits to consumers. For example, at Rebalance IRA our services are 50-75 percent lower than traditional brokerage models. It must be noted that costs are the most accurate predictor of investment success over time. The second predictor of success is asset allocation. At Rebalance IRA, our highly skilled financial advisors spend considerable time with new clients to strive for the optimal balance of risk and reward, unbiased by commissions. Third, our firm provides a high level of transparency, regarding "all-in" investing costs to consumers and fiduciary responsibilities to clients. And finally, we pair all of our clients with a highly qualified, two-person retirement investing team. Put together, this has resulted in a business model that is successful for investors, as well as profitable. *Bottom line: Advisors can provide best interest advice to investors of all incomes and run a successful business.*

Because our firm runs free of conflicts, we do not have concerns about litigation. We believe that when we put our clients front and center, without conflict, and provide them with high caliber services under our business model, we can leave concerns about regulatory risk at the door. We take our fiduciary obligation seriously, just as any advisor should, and that results in relief from worries of legal costs.

Conclusion

It is time to hold all financial professionals accountable by consistently requiring them to act in the best interests of their clients, and establish a level playing field. That is what the Department of Labor's rule can do. Americans struggling to save for a dignified retirement should no longer be subjected to the conflicts of interest that are draining their retirement investments. And, if traditional brokerage firms cannot live with the simple fiduciary standard and refuse to serve modest savers, so be it. Other financial firms who embrace the client-first approach, new and established, stand ready to help all Americans prepare for a secure retirement.

Thank you again for the opportunity to appear before you today. I look forward to answering your questions.