Jeff Zients Remarks on Conflict of Interest Rule
Bipartisan Policy Center
May 27, 2015

Thank you Bill, for the kind introduction. And thanks for having me here today. It's good to be here at the Bipartisan Policy Center. Speaking of bipartisan, it was great to see a strong, bipartisan vote in favor of trade promotion authority last week in the Senate. We're pleased to see this important piece of business a step closer to being done.

Middle class economics, the idea that the economy does best when it grows from the middle out, has animated everything the President has done since he's been in office. This vision is underpinned by the basic promise of America: if you work hard and play by the rules, you can get ahead. Over the last six-plus years, the President has addressed twin challenges to that vision – the near-term challenge of ending the financial crisis and fueling the recovery, and the longer-term challenge of expanding opportunity for the middle class after decades of tepid wage growth, increasing health care costs and reduced access, and a financial system without adequate safeguards.

The good news is that under the President's leadership, we've made real progress toward addressing these challenges. 12.3 million private sector jobs created across 62 straight months- the longest streak of job creation on record. The unemployment rate has fallen from a high of 10 percent to 5.4 percent, the lowest level in seven years. More Americans graduating from college than ever before, and the highest high school graduation rate in history. More than 16 million additional Americans with health insurance, and health care cost growth that is near its lowest levels in 50 years. And we're now the world's number one producer of oil and natural gas, the amount of electricity we generate from wind is up three times, the amount of solar is up twenty times, and we've set historic standards that will double fuel the efficiency of new cars by 2025.

All of this progress while deficits have come down by two thirds, from nearly 10 percent GDP to less than three percent – a level low enough to stabilize debt as a share of the economy. Importantly, we're building this economic progress on a more stable financial system, as we've put in place reforms that make it safer and stronger. Our largest and most complex financial institutions have doubled their capital cushions to absorb unexpected losses and are now subject to annual stress tests. Parts of the financial system that escaped adequate oversight before the crisis have been made more transparent, and brought under stronger oversight and supervision. Regulators now have tools to manage potential future failures, tools that were unavailable when Bear, Lehman, AIG, and others collapsed. Importantly, many of the worst financial products that contributed to the crisis have been curbed or no longer exist.

The President has also been relentless in his efforts to strengthen consumer protections. He fought to create the Consumer Financial Protection Bureau as a strong independent watchdog. And the CFPB has enhanced safeguards for mortgages, credit cards, debt collection, and student loans. Through environment actions, the CFPB has put over $5 billion back in the pockets of more than 15 million consumers. And recently, the CFPB took an important step toward cracking down on abusive practices in payday lending.

We've made significant progress building a stronger foundation for long-term prosperity, while we've worked our way back from the crisis. But even as we are here today talking about how to move forward with stronger consumer protections, some would like to take us backward. Just last week, Senator Shelby pushed through committee a partisan bill to roll back Wall Street reform. His goal here is clear – to weaken oversight of some of the largest financial institutions and to tie the financial watchdogs in knots. Now, we've seen this movie before, with the lax rules and all of the damage that it caused. The President has been very clear – no sequels here. The President will not accept any legislation that unravels Wall Street reform.

Recently, Republicans in Congress have also tried to block commonsense rules that protect military servicemembers and their families from predatory lenders. Fortunately, their efforts have failed so far. I have a simple message to Congress: let the rule go forward. Let's protect servicemembers and their families from abusive, predatory loans.

Now, at the same time some Republicans are trying to roll back reforms, we're going to continue to move forward with the President's consumer protection agenda. The conflict of interest rulemaking we're here to discuss today is a logical next step. It addresses one of the most important financial issues Americans face, how to plan and save for retirement.

The President believes that after a lifetime of hard work all Americans deserve every opportunity to retire with dignity, and security. That's a central tenet of middle class economics. The financial crisis erased trillions in retirement savings from American families. And while the recovery has replenished much of what was lost, middle class families are still making up ground. And unless we do more, millions of Americans will have a hard decision to make: to either work well past when they planned to retire or to live with less in retirement, or to risk outlining their savings and falling back on Social Security alone.

Social Security is, and must remain, a rock-solid, guaranteed benefit that Americans can rely on. But too many Americans don't have enough to supplement their Social Security. That's why the President has put forward retirement proposals that would give 30 million more workers access to a new workplace savings opportunity.

At the same time, we are working to increase access to savings opportunities, we need to makes sure that Americans who are doing the responsible thing – working hard and putting enough aside for retirement – are getting a fair share of the returns on their savings. Today, workers are increasingly responsible for their own retirement, as the economy has moved away from traditional pensions toward 401(k)s and IRAs. Instead of a defined benefit pension plan, managed by a professional with a guaranteed stream of income in retirement, most American workers need to figure out for themselves how to invest and manage the risks of retirement planning. This involves difficult and complex decisions. That's why many people turn to investment advisers for help. And when they do, they should be able to trust that the people they pay for retirement advice always have their best interests in mind. Just as we all expect our doctors to give us the advice that's best for our health and lawyers are duty-bound to represent their clients faithfully, families saving for retirement should be able to rest assured their financial advisers are always putting their best interest first.

But the current rules of the road don't actually require all financial advisers to put their clients first. And today, unfortunately, too many financial advisers have sales incentives to steer responsible Americans into bad retirement investments with high fees and lower returns. You see these conflicts of interest lead to recommendations to "roll over" existing retirement savings out of low-fee plans and into higher-cost investments. A Council of Economic Advisers report shows that conflicts of interest cause middle-class families to lose out on an estimated one percentage point of annual returns on their retirement savings. That adds up to $17 billion of lost retirement savings per year – losses of tens of thousands of dollars for many individual families over a lifetime of saving.

It's been almost 40 years since the rules of the road for retirement advice were updated. Back in the mid-1970s, eight track tapes were all the rage, IRAs were a few months old and 401(k)s didn't even exist. Now, with more than $12 trillion in self-directed savings, good investment advice is absolutely essential. But loopholes in these outdated rules allow some advisers to claim they're putting their customers first, while hiding behind confusing fine print and legalese. That's why Secretary Perez and the Department of Labor are taking action through the proposed rulemaking on conflicts of interest.

Now, let me be clear, many financial advisers do have their clients' best interests at heart, and provide sound advice. Those advisers deserve to get fairly compensated for that advice. And the Department's rule will allow just that.

We've also heard a lot about how this rule may affect retirement savers with small balances. I just don't believe the argument that small savers can't be served by advice that's in their best interest, especially with the advent of new, technology-based models. In fact, the rule will help the best advice win out, because those already selling good products or giving good advice stand to benefit in a world where a client's best interest has to be put first. The President said it best: "if your business model rests on taking advantage of, or bilking, hardworking Americans out of their retirement money, then you shouldn't be in business."

As I look across the room here, I see a lot of familiar faces. And I thank everyone who has contributed time and effort to this process. As a result, the proposed rule already reflects a lot of feedback from industry, consumer groups, retirement advocates, academics, and the public. This feedback has helped the Labor Department shape the rule. For example, based on industry feedback, the proposed rule includes streamlined, flexible exemptions that accommodate the common types of existing compensation practices. Under one of these new exemptions, advisers can sign a Best Interest Contract with their clients.

The idea is pretty simple: firms can continue to set their own compensation practices, as long as they acknowledge they are fiduciaries, sign contracts affirming they will always act in their clients' best interests, don't incentivize their advisers to do otherwise, and disclose any conflicts that may prevent them from doing so. Firms will be held accountable if they break that contract.

This is a new approach and one that we believe will help protect consumers in a way that is not disruptive to retirement advisers who are already providing good advice and putting their clients' best interest first.

As you know, the rule is now out for public comment. On top of the feedback we've received over the past five years, we'll have a total of more than four months for additional public comment on the proposed rule. Clearly, that's more than ample time for input. Any adviser acting in their clients' best interest should support this rulemaking and work with us to get it right.

Unfortunately, for some special interests, the only good rule on conflicts of interest would be no rule at all. That's not going to happen. Inaction is not an acceptable outcome, when the retirement security of so many Americans is at stake.

So, my ask of all of you here today is to continue to be a constructive part of the process, providing input to help us finalize the rule in a way that best accomplishes our goals. When retirement advisers put their clients first we believe the best advice and best products truly will win out. That means more competition, better advice, better products, and more financial security for every American who works hard and saves responsibly.

The conflict of interest rule is an important step forward in ensuring we have an economy that works for everyone. And that everyone who works hard and plays by the rules can get ahead. That's central to middle class economics and it's central to who we are as a Country.

Thanks again to the BPC hosting us today. And thank you all for helping us get this rule right.