



NAIFA MEMBERS

SERVING MAIN STREET INVESTORS



IN PARTNERSHIP WITH



www.limra.com

Q&A based on results from a LIMRA survey commissioned by NAIFA

Q. WHY DID NAIFA COMMISSION LIMRA TO CONDUCT A SURVEY OF NAIFA MEMBERS?

A. The Dodd-Frank Wall Street Reform and Consumer Protection Act passed in summer 2010 directs the SEC to conduct a study to analyze the regulatory environment governing broker-dealers and investment advisers and to determine if any regulatory gaps or overlaps exist that are harmful to consumers. The premise behind the effort is based on the perception that the fiduciary duty governing investment advisers provides greater investor protection than the suitability standard governing broker-dealers. In NAIFA's view, the SEC study is important because without this analysis, due in January 2011, Congress was set to move forward with imposing a legal fiduciary duty on all broker-dealers and their registered representatives who provide advice to clients.

NAIFA commissioned the LIMRA study of NAIFA members to provide the SEC with data that would help explain to regulators how the suitability standard is applied and enforced in the real world versus the fiduciary duty governing investment advisers.

Q. HOW MANY MEMBERS WERE SURVEYED?

A. Results are based on responses from 3,372 members, with a margin of error of plus or minus 2 percentage points.

Q. WHAT ARE SOME OF THE KEY FINDINGS OF THE SURVEY OF NAIFA MEMBERS?

A. One key finding suggests that NAIFA members provide affordable financial services to lower- and middle-market consumers, with 58% of NAIFA members saying their clients have household incomes of \$99,000 or below, and 77 percent have clients earning \$149,000 or less. If a fiduciary standard of care is imposed, many NAIFA members believe their compliance costs would increase, and if costs go up 15 percent, 65 percent of NAIFA members would take action that would limit access to financial advice to this middle market (by increasing fees, limiting service to affluent clients only, or not selling securities). Close to half (41 percent) of members say that "few or "very few" of their clients could take on the added costs.

(According to the U.S. Census Bureau, 80% of Americans' earn less than \$100,000 a year; 44% earn \$35,000-99,999.)

Q. WHAT DOES IT COST TO COMPLY RIGHT NOW UNDER THE SUITABILITY STANDARD?

A. Currently, the typical NAIFA member incurs considerable costs in compliance and securities examinations. For those subject to compliance, members spend an average of 514 hours a year, plus 12 hours per year on examinations. Direct costs average \$8,878 a year: \$264 in exam expenses, \$569 in broker-dealer and/or registered investment advisor fees, and \$8,044 in staff expenses for compliance.

If a fiduciary standard of care is imposed, most members believe compliance costs would increase due to the additional time and staff expenses incurred to adhere to the rules.

Q. WHY NOT HAVE REGISTERED INVESTMENT ADVISERS – WHO CURRENTLY OPERATE UNDER FIDUCIARY – SERVICE MIDDLE-MARKET CONSUMERS?

A. Many middle-market investors do not have large enough portfolios to satisfy the minimum balances nearly all investment advisers require. According to a 2008 RAND report, about half of the investment advisers examined for the report had account minimums of at least \$1 million, and nearly all of the others had account minimums of \$100,000 to \$500,000.

According to the NAIFA consumer survey, middle market consumers who work with a financial advisor say they have less than \$50,000 invested. Registered investment advisers are not likely to work with this market because of the large minimum balances required in these accounts.

Q. DO CONSUMERS REALLY KNOW THE DIFFERENCE BETWEEN FIDUCIARY AND SUITABILITY STANDARD OF CARE?

A. NAIFA members believe that very few, if any, consumers understand the difference between fiduciary and suitability. In fact, only one out of five NAIFA members say there would be practical difference in how they interact with their clients if a fiduciary responsibility was imposed. Why? Because they say they already serve their clients with their clients' best interests in mind. NAIFA

(continued on next page)

members must establish an ongoing relationship of trust and credibility with their clients, or they would be out of business.

However, NAIFA members share concerns about the impact a fiduciary standard would have on their businesses, such as an increase in compliance costs, an inability to continue service to the middle market, and concerns about liability insurance and lawsuits.

Q. WHAT DOES THE CONSUMER SURVEY TELL US ABOUT CONSUMERS' INVESTMENT ATTITUDES AND BEHAVIORS?

A. According to a survey of consumers, most respondents earning \$50,000-\$99,000 have limited funds to invest, which suggests a need for affordable financial advice. About one-third (35 percent) in this category who said they have used a financial advisor have less than \$50,000 invested; 16 percent of respondents have nothing invested with a professional advisor.

When asked how much they could afford to invest with a financial advisor, half of all consumers surveyed said they could invest less than \$1,200 a year (17 percent could afford about \$100 a month; 30 percent said they could afford nothing).

ABOUT THE SURVEYS

LIMRA conducted a Web-based survey of active NAIFA members during the time period of Oct. 7-20, 2010. Results are based on responses from 3,372 NAIFA members with a margin of error of plus or minus two percentage points.

LIMRA facilitated an Internet survey by Opinion Research Corporation conducted Oct. 11-13, 2010. Results are based on responses from 1,008 U.S. adults age 18 or older, representative by gender, age, region and race. The margin of error is plus or minus three percentage points.

ABOUT NAIFA:

NAIFA comprises more than 700 state and local associations representing the interests of 200,000 members and their associates nationwide. NAIFA members focus their practices on one or more of the following: life insurance and annuities, health insurance and employee benefits, multiline, and financial advising and investments. The Association's mission is to advocate for a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of its members.