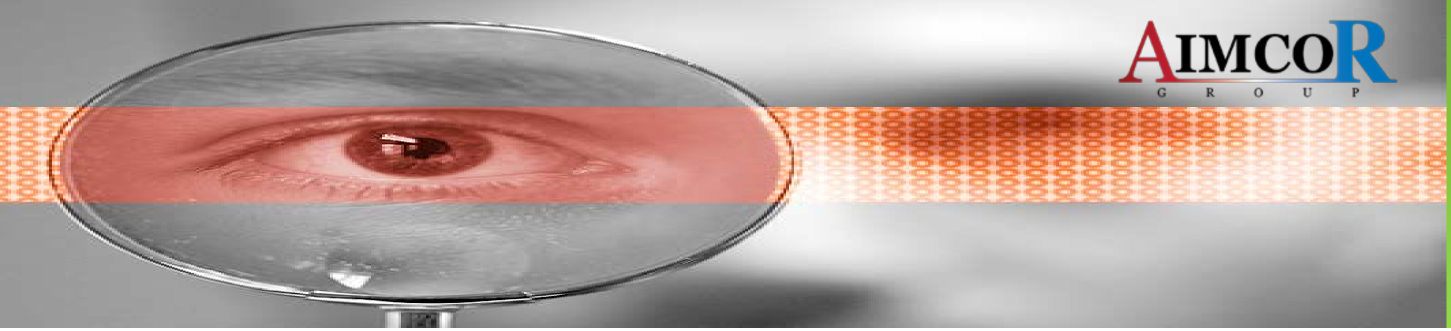
The Department of Labor Conflict of Interest Rules

A Comprehensive Overview of the new DOL Ruling



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The information presented here is provided at a high and non-individualized level. Each aspect of the DOL rule may be subject to additional conditions and requirements. The information provided is not legal advice. Please consult your legal advisor if you have questions.

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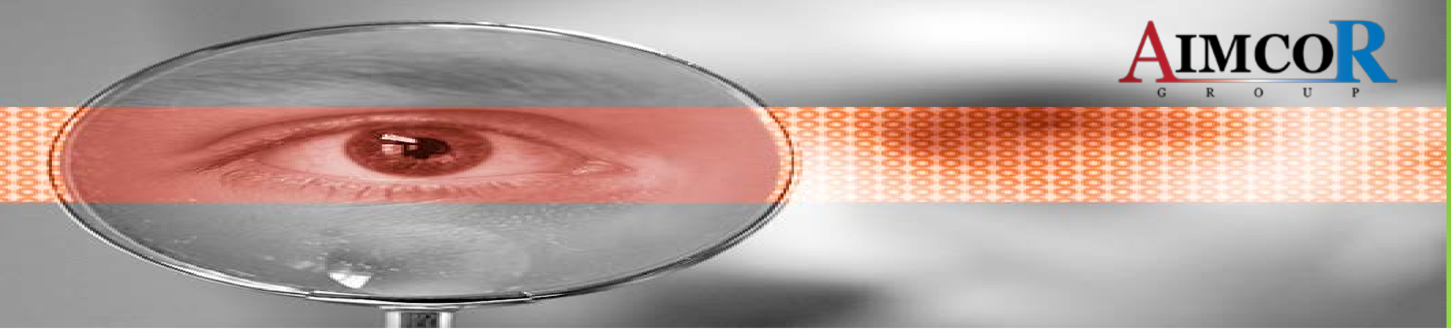
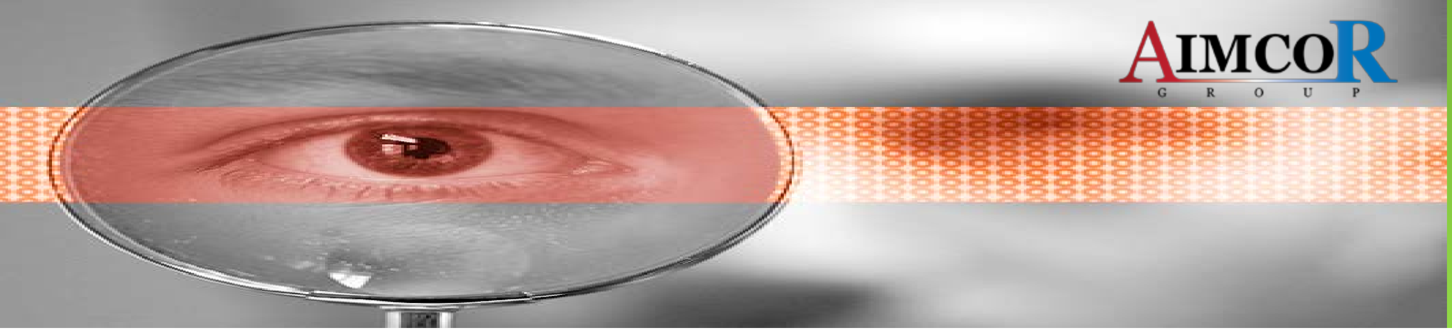


The Dept. of Labor Conflict of Interest Rule

- 1,023 pages of new, complicated regulations
- Impose new liabilities & requirements on **every member** of our industry
- Contain **no “Safe-Harbor”** language or checklist for advisors or broker/dealers
- The Office of Management & Budget estimates it will cost our industry $19 Billion to comply with the new requirements
- Industry focus has been on compensation. BICE helps address that. **More important focus should be on meeting fiduciary obligations, regardless of how we get paid**
- New definition of Fiduciary under the rules is **effective April 10, 2017**.
- **The full set of rules and requirements apply as of January 1, 2018**



The Dept. of Labor Conflict of Interest Rule

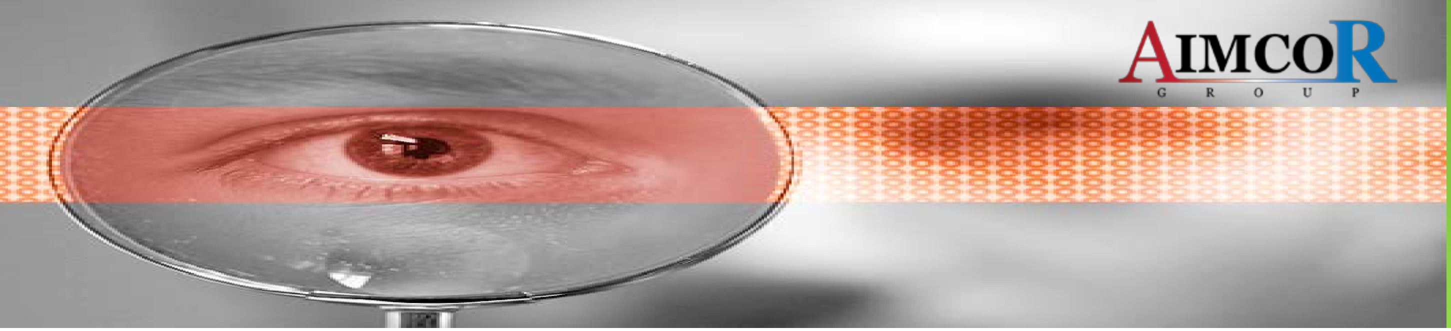
Requires all who provide retirement investment advice to:

- ERISA-governed retirement plans (i.e. 401k plans),
- Sponsors & fiduciaries of such plans,
- Participants & beneficiaries of such plans,
- IRA owners & IRA beneficiaries

to abide by a “fiduciary” standard – putting their ***clients’ best interests*** before their own profits.

Firms and advisers will be required to make prudent investment recommendations without regard to their own interests, or the interests of those other than the customer; charge only reasonable compensation; and make no misrepresentations to their customers regarding recommended investments.

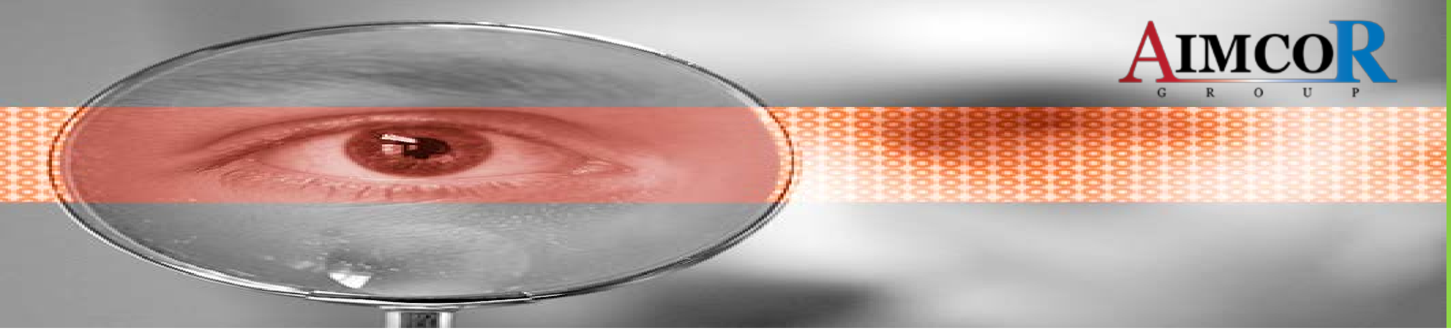
Source: U.S. Dept. of Labor - www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/dol-final-rule-to-address-conflicts-of-interest



Think “Investment Advice”

Covered investment advice is defined as a recommendation to a plan, plan fiduciary, plan participant and beneficiary or IRA owner for a fee or other compensation, direct or indirect, as to the advisability of buying, holding, selling or exchanging securities or other investment property, including recommendations as to the investment of securities or other property after the securities or other property are rolled over, transferred or distributed from a plan or IRA.

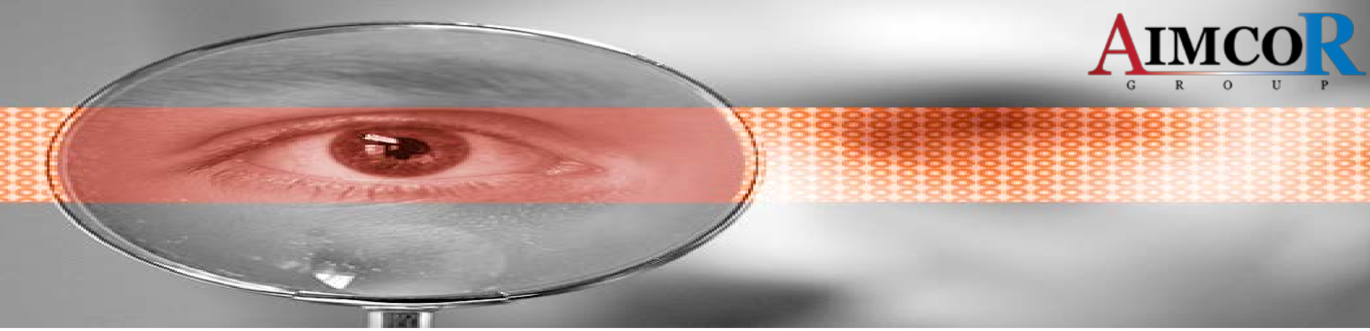
Source: U.S. Dept. of Labor - www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/dol-final-rule-to-address-conflicts-of-interest



Think “Account/Portfolio Structure & Management”

Covered investment advice also includes recommendations as to the management of securities or other investment property, including, among other things, recommendations on investment policies or strategies, portfolio composition, selection of other persons to provide investment advice or investment management services, selection of investment account arrangements (e.g., brokerage versus advisory); or recommendations with respect to rollovers, transfers, or distributions from a plan or IRA, including whether, in what amount, in what form, and to what destination such a rollover, transfer, or distribution should be made.

Source: U.S. Dept. of Labor - www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/dol-final-rule-to-address-conflicts-of-interest



Definition of Recommendation

A **"recommendation"** is a communication that, based on its content, context, and presentation, would reasonably be viewed as a suggestion that the advice recipient engage in or refrain from taking a particular course of action.

The more individually tailored the communication is to a specific advice recipient or recipients, the more likely the communication will be viewed as a recommendation.

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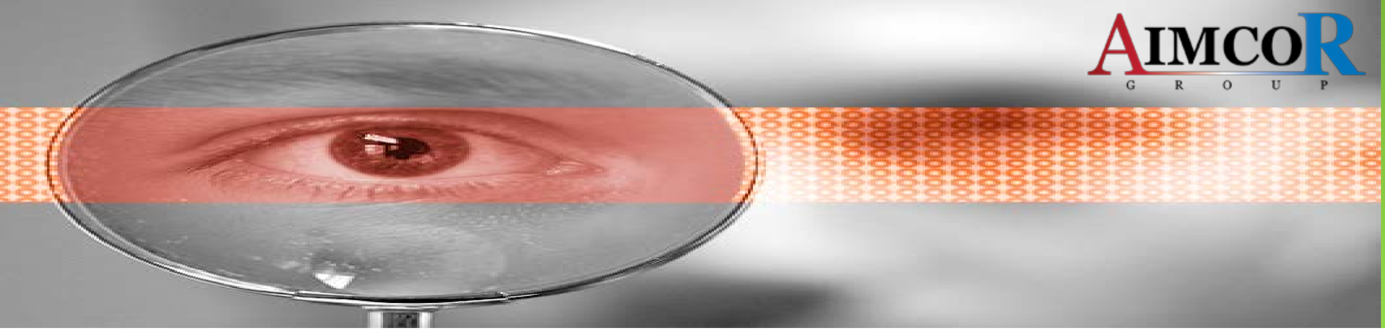
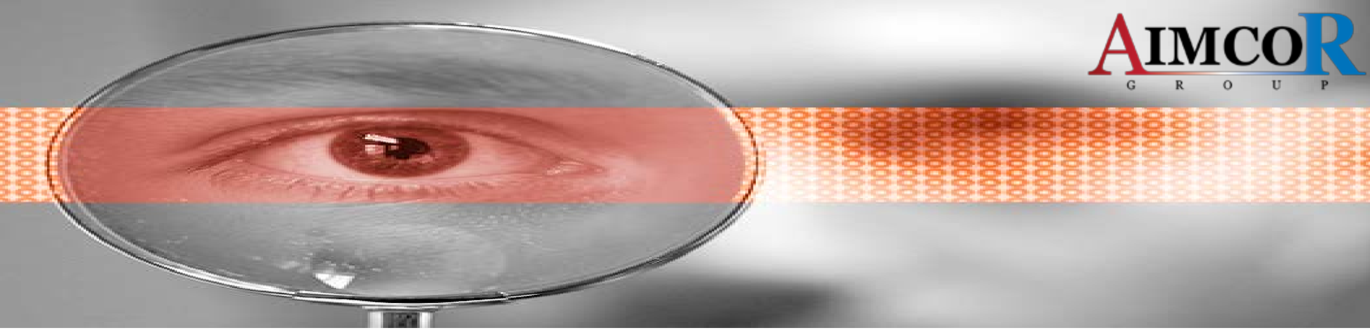


When does a recommendation make one a fiduciary?

In order for a recommendation to constitute fiduciary investment advice, it must be rendered for a "fee or other compensation."

"Fee or other compensation, direct or indirect" means any explicit fee or compensation for the advice received by the person (or by an affiliate) from any source, and any other fee or compensation received from any source in connection with or as a result of the recommended purchase or sale of a security or the provision of investment advice services including, though not limited to, such things as commissions, loads, finder's fees, and revenue sharing payments.

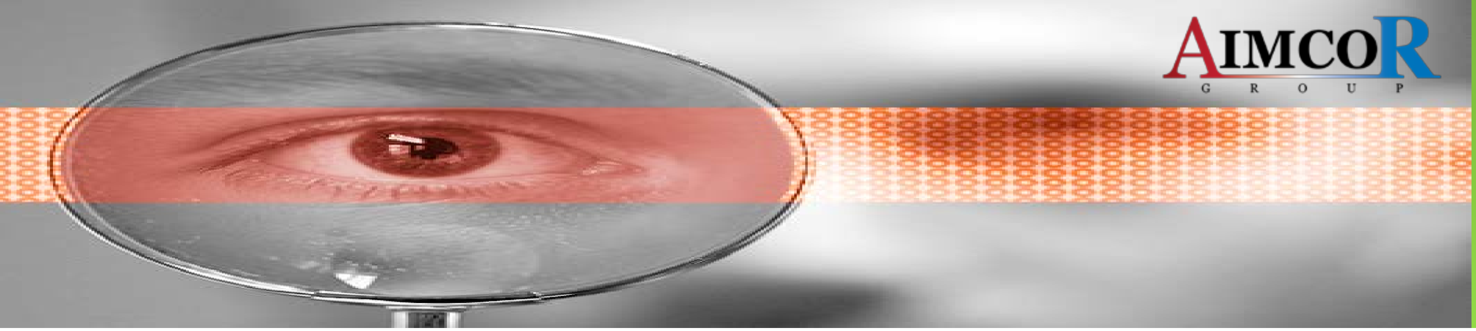
Source: U.S. Dept. of Labor - www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/dol-final-rule-to-address-conflicts-of-interest



Definition of Recommendation

Recommendations that give rise to fiduciary investment advice responsibilities include recommendations made either directly or indirectly (e.g. through or together with any affiliate) by a person who:

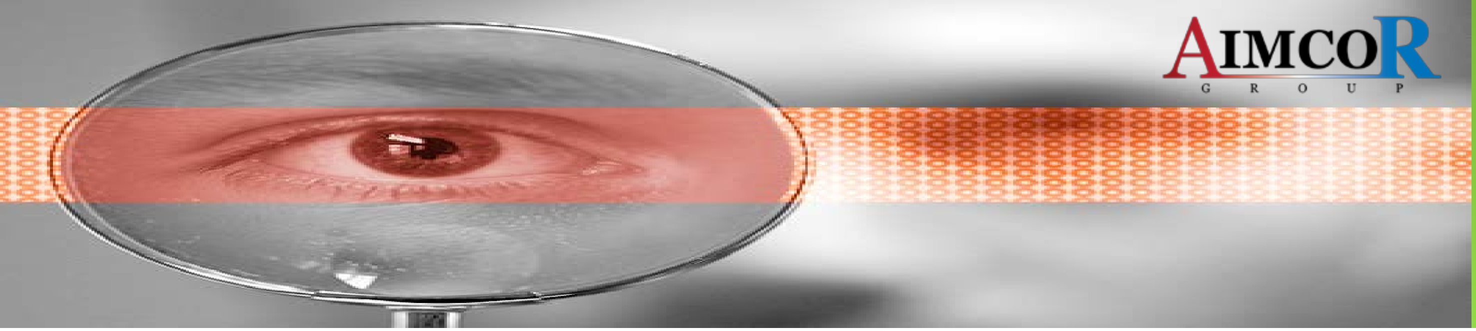
- Represents or acknowledges that they are acting as a fiduciary within the meaning of ERISA or the Internal Revenue Code (Code);
- Renders advice pursuant to a written or verbal agreement, arrangement or understanding that the advice is based on the particular investment needs of the advice recipient; or
- Directs the advice to a specific recipient or recipients regarding the advisability of a particular investment or management decision with respect to securities or other investment property of the plan or IRA.



DOL Conflict of Interest Rules

It seems that almost anything an advisor says to a client with regard to an ERISA-governed retirement plan or IRA will be construed as advice that makes the advisor (and the advisor's firm) a fiduciary, including:

- What funds or investments should be offered in a 401k plan or IRA
- What a 401k participant or IRA owner should invest in
- Recommendations about rolling (or not rolling) 401k assets to an IRA
- Whether or not to take a distribution from a 401k plan or IRA
- How much to take as a distribution from a 401k plan or IRA
- What to do with 401k/IRA distribution proceeds

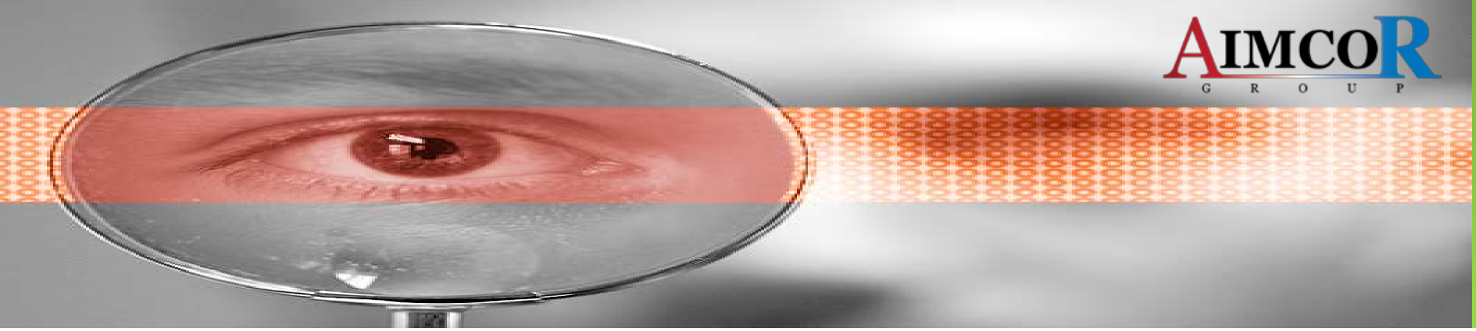


DOL Conflict of Interest Rules

Because there are no “Safe Harbor” rules for advisors to follow, and because no governmental agency could possibly monitor and enforce each interaction advisors and firms have with clients:

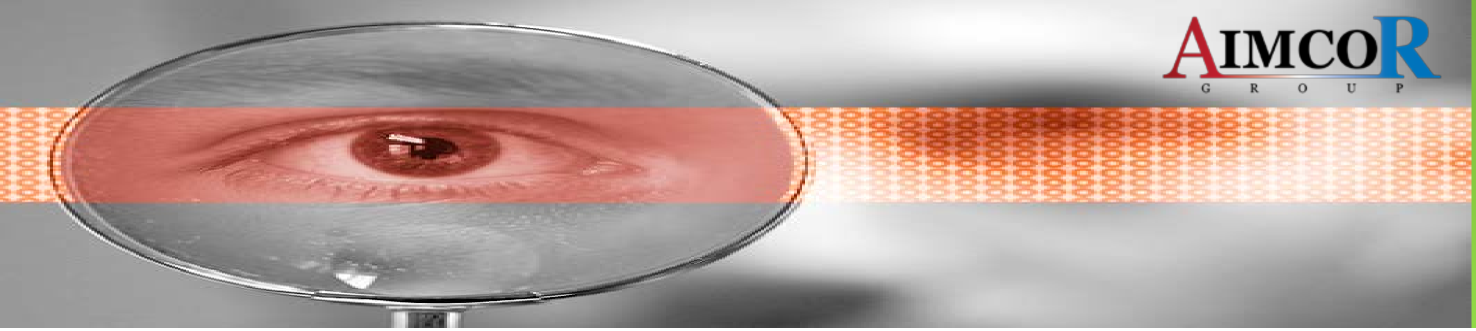
The U.S. judicial system will determine, over time, the rules of the road as a result of lawsuits (mainly class-action) brought against broker/dealers and other financial institutions.

The main beneficiaries of the DOL Conflict of Interest rules will be trial attorneys!



What does all this really mean?

- The way firms and advisors engage with clients will change
- How revenue is generated for firms and advisors will change
- New/more responsibilities for firms and advisors
- New/more liabilities for firms and advisors
- Increased time/cost for client support will force advisors to focus on the clients that generate the most revenue
- The landscape of our industry will change



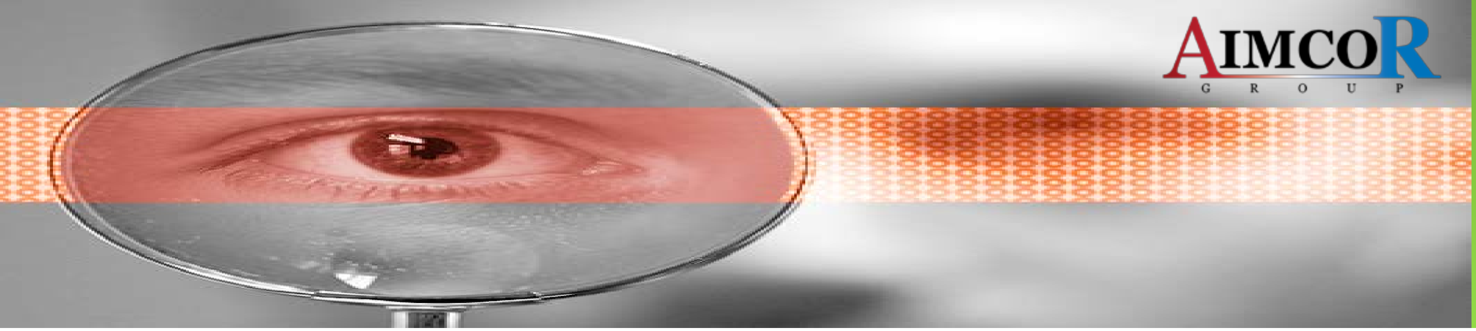
DOL Impact at a Firm Level

Higher Certainty

- **Shelf space competition**, smaller organizations will have **difficulty remaining relevant.**
- **Difficulty in getting marketing approvals**
- Compliance will **vary across timelines and requirements**, increasing risk of customization demands.
- Firms will **pull suitability in-house** (how does this affect insurance?)

Moderate Certainty, High Impact

- **Large firms will acquire** small firms
- **Firms will discourage relationships** and be less influenced by them in the future.



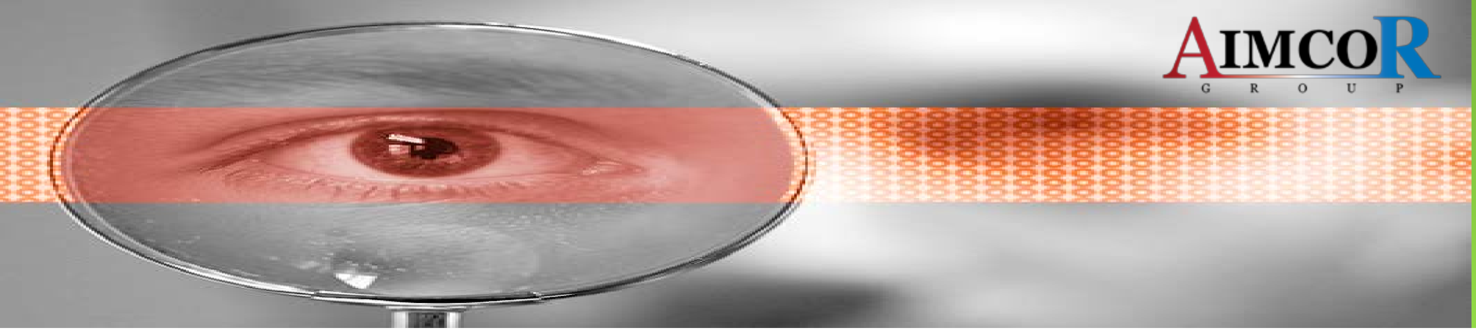
DOL Impact at an Advisor Level

Higher Certainty

- **Increasing penetration of FIA in brokerage channels –** larger B/Ds will clear FIA in-house, instead of treating as OBA
- **Significant advisor movement** is expected in the next two years – between firms, retirements, etc.
- Advisors will have **less individual discretion** in what options they are able to offer and who they use for OBAs (if any).
- Life insurance / protection planning will become **more prevalent** in this space but **most likely higher regulated as well**.

Moderate Certainty, High Impact

- **Point of sale interactions with wholesaler presence are expected to change.** (less POS on the fund and annuity side, increased need for insurance POS)



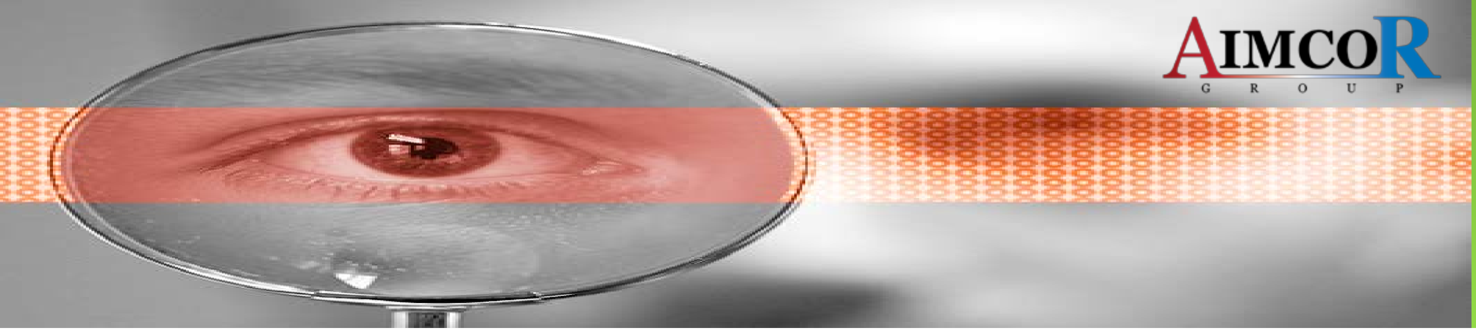
Other Impacts (Not firm or advisor related)

Higher Certainty

- Carriers will experience increased **expense pressures** due to DOL compliance
- Significant **decline in annuity sales** over short-term, longer-term outlook is uncertain
- Market will **demand lower priced products**, especially impacting the funds space
- **Advisory channels will continue to grow** (headcount and sales of RIA and dually registered representatives at brokerage firms) while number of brokerage/commissioned based advisers is expected to decline
- **Additional regulations** that will significantly impact industry are expected
- Increases in technology and **digital disruption** will continue, specifically concerning digital/robo advice and decision support
- Go to market **training** needs, with wholesalers and advisors, will be high over the next several years

Moderate Certainty, High Impact

- **Total annuity business will decline**
- **Service will matter more** in the future



Meeting a Fiduciary Standard

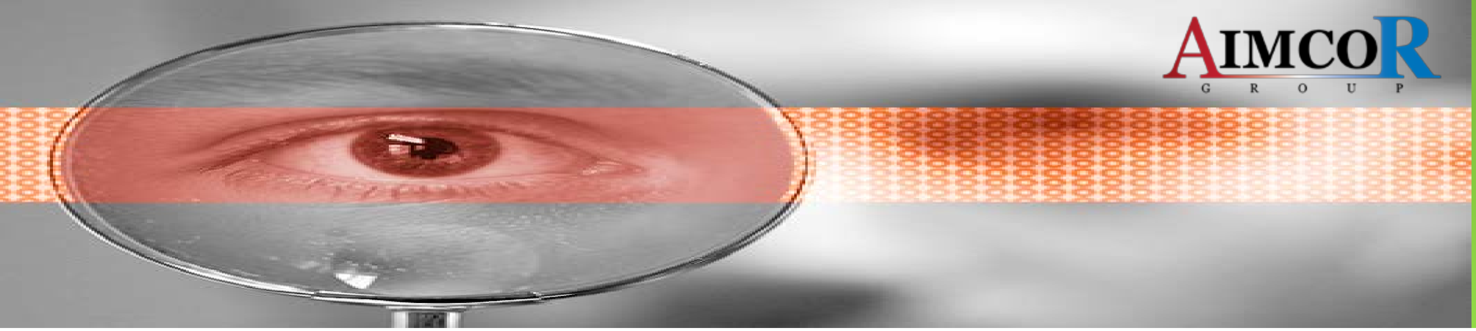
Longevity
(Living too Long)

Market Volatility

When acting as a fiduciary you have an obligation to PROTECT AGAINST these 4 risks.

Illness
(Long-Term Care)

Transfer to the Next Generation



About AimcoR Group, LLC

AimcoR Group, LLC is a leading national insurance marketing organization consisting of 42 member companies that focus on distributing and servicing insurance and retirement products through a variety of channels and platforms including independent financial advisors, broker-dealers, property and casualty firms, banks and direct-to-consumer marketers.

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