

MEMO# 13769

July 26, 2001

HOUSE SUBCOMMITTEE HEARING ON INVESTMENT ADVICE LEGISLATION

[13769] July 26, 2001 TO: BOARD OF GOVERNORS No. 36-01 FEDERAL LEGISLATION MEMBERS No. 10-01 PRIMARY CONTACTS - MEMBER COMPLEX No. 49-01 PUBLIC INFORMATION COMMITTEE No. 22-01 RE: HOUSE SUBCOMMITTEE HEARING ON INVESTMENT ADVICE LEGISLATION On Tuesday, July 17, the House Education and the Workforce Subcommittee on Employer-Employee Relations held a hearing on H.R. 2269, the "Retirement Security Advice Act of 2001." Witnesses included Ann Combs, Assistant Secretary of Labor for Pension and Welfare Benefits, TIAA-CREF, Mohawk Industries, the American Council of Life Insurers (ACLI), AARP, and the AFL-CIO. The Institute, in testimony prepared for the hearing, expressed its strong support for H.R. 2269. The highlight of the hearing was the endorsement of the legislation by the Department of Labor. In a reversal of its prior position, the Department testified that the bill "creates a strong, protective framework for the provision of investment advice to participants." The Department also acknowledged that the legislation is necessary to expand on its Interpretive Bulletin on Investment Education (IB 96-1), which restrains the ability of 401(k) plan participants to obtain specific investment recommendations for their accounts. TIAA-CREF, Mohawk Industries, and ACLI endorsed the legislation and indicated that the bill would allow those financial institutions in the best position to provide quality advice to plan participants to do so with appropriate safeguards in place. They supported the bill's imposition of ERISA's fiduciary obligations on advice providers, along with the imposition of timely, clear and conspicuous disclosure to advice recipients. This would allow participants to gain access to quality investment advice while retaining stringent safeguards. Witnesses opposing the legislation—the AFL-CIO and AARP—expressed concern about financial institutions providing biased advice to plan participants. However, AARP indicated it could support legislation that would permit financial services firms to provide investment advice to plan participants so long as those participants also could choose an independent adviser as an alternative. 2The House Education and the Workforce Committee intends to mark up H.R. 2269 following the August congressional recess. We will inform you of further developments. Matthew P. Fink President