



Fiduciary Rule or not – We Act in Your Best Interest

Much has been reported in recent months about the Department of Labor’s so-called “fiduciary rule” or “conflict-of-interest rule” that was scheduled to take effect April 10, 2017. The effective date was delayed to June 9, with certain aspects not to be effective until January 1, 2018. For months, much of the financial advisory world has been walking on glass, concerned about what compliance with the new rule will mean for their business.

At the Trust Company, however, we have been in compliance with the spirit of the law since our inception. We have always acted in your best interest, our clients, giving conflict-free investment advice for a competitive, reasonable fee.

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Why the New Rule?

The spirit of the DOL rule is to discourage brokers, financial advisors, and others who sell investment products from acting in their own interest rather than the interest of retirement plan participants and beneficiaries. Whether the rule will have the desired effect or cause negative consequences is a topic for debate.

For decades, investment brokers, insurance agents and other “advisors” or “providers” have sold retirement plan products and services to plan sponsors and participants and collected commissions for doing so. These players had not been considered “fiduciaries” under the body of law governing qualified retirement plans, such as 401(k) plans; therefore, they were not held to the highest standard of care and were allowed to accept variable compensation.

Consumer advocates and regulators believed many of these players were selling investment products – or making recommendations – based on the level of commissions that were paid rather than on the best solution for their client’s needs.

So the DOL rule expands the definition of a “fiduciary” under the Employee Retirement Income Security Act of 1974, causing more of these players to be held to a higher level of fiduciary care, free from conflicts of interest.

Trust Company: Always a Fiduciary

For nearly a quarter of a century, the Trust Company of Illinois has served retirement plan sponsors and participants as a fiduciary Investment Manager and Advisor for employer sponsored retirement plans under the strict rules of ERISA sections 3(21) and 3(38). We have also served as a discretionary trustee for many of our clients’ plans. Having intentionally taken on these fiduciary responsibilities, we have provided a level of service that keeps the best interest of plan participants and beneficiaries at heart.

The Benefits of Trust Company as your Fiduciary

What does this mean for you?

You can rest assured that the investments offered in your plan have been carefully selected by our Investment Committee based on a due diligence process that considers your interests, not our own. We select and continuously monitor mutual funds and other investment vehicles for which we have a high level of conviction that they will be among the top performers in their peer group over the long haul.

We also consider the fund’s management expenses in order to keep your costs down without forsaking performance. And we consider the objectives of your plan and its participants. We don’t accept sales commissions or other “revenue sharing” payments that are common in the industry, such as 12(b)-1 fees, sub-transfer agency fees, or custodial fees.

Most commonly, the mutual funds we make available to you are “institutional class” funds that are among the lowest cost funds and are not available to the average individual investor. This is different than typical “retail” or “retirement” class funds that most retirement plan providers sell to small-/mid-sized retirement plans. As a client of the Trust Company, the rate you pay for your plan account is very competitive, and in some cases relatively low.

What you pay is very transparent, too. There are only two regular costs:

1. Mutual Fund Expense Ratio: This is an annual percentage of assets charged by the mutual fund company to every investor in the fund. This expense covers the fund company’s cost of doing business and profit, and it is simply baked into the investment return. For example, the Vanguard Primecap Admiral fund currently has a net expense ratio of 0.33%. So an investment of \$1,000 would have a theoretical fee of \$3.30 over the course of a year. It’s theoretical because your investment value fluctuates daily based on market value so the actual dollar amount of the expense would also fluctuate. If the fund returns 10% in annual investment gain, that’s after Vanguard deducted 0.33%. On average, participants in our clients’ plans paid less than 0.40% in mutual fund expense ratios during 2016. Trust Company’s Guided Portfolios are invested in funds with low-moderate composite expenses (e.g. the Stock Focused portfolio currently has a 0.23% composite expense ratio), and there are several very low-cost index funds available in most of our clients’ plans.

2. Trust Company's Annual Fee: This is for plan record-keeping, administration, compliance, participant services, investment advice, investment management, and trustee service. Typically your employer pays a portion, if not all, of this fee. Your annual cost typically will be in the range of 0% to 1% of your account balance depending on the size of the plan and how much your employer pays. (See your plan's fee disclosure for details.)

The only other standard fees we charge are for taking a loan (\$100), for taking a distribution (\$25), or for locating you if we don't have a correct payment address (\$20). Each year we provide a fee disclosure that explains your plan's fees and expenses. If you have any questions, please don't hesitate to contact us.

Of course, fees and expenses are relative to the services provided. Low cost may not necessarily be a good thing. Trust Company was built on the notion that we can do better for our clients than the typical investment advisor or provider. We continue to pursue that goal, hoping to affect positive change in the lives of our clients and communities that we are here to serve.

Being held to an ERISA fiduciary standard is a good thing, and we will always act in your best interests.