Administration of Barack Obama, 2015

Remarks at AARP Headquarters
February 23, 2015

Thank you. It is great to be back here—not just to pick up my AARP card. [*Laughter*] I want to thank Jo Ann and everybody at AARP for the work you do every single day on behalf of seniors. I am especially grateful to all of you for the seniors work you're doing to help us prepare for the White House Conference on Aging, which will be coming up later this year and will cover a whole host of issues, including protecting one of the most critical components of middle class life, and that's a secure and dignified retirement. And that's what we're here to talk about today.

I want to thank some other people who care passionately about this issue: My energetic, tireless Secretary of Labor, Tom Perez; a couple of outstanding Senators, Cory Booker from New Jersey and Elizabeth Warren from Massachusetts. And Congressmen John Delaney is here—proud of the work he is doing.

So 6 years after the financial crisis that shook a lot of people's faith in a secure retirement, the good news is, our economy is steadily growing and creating new jobs. Last year was the best year for job growth since the 1990s. And all told, over the past 5 years, the private sector has created nearly 2 million [12 million][*] new jobs. And since I took office, the stock market has more than doubled, which means that 401(k)s for millions of families have been replenished.

America is poised for another good year, as long as Washington doesn't screw it up, as long as we keep the progress going with policies that help and don't hinder the middle class, no stalemates, no standoffs, no self-inflicted wounds or manufactured crisis—if we stay away from those things, then the projections are that the economy can do very well again this year.

But we're going to have to choose whether we accept an economy where only a few of us do spectacularly well or whether we build an economy where everybody who works hard can get ahead and have some semblance of security in this ever-changing world.

Because while we've come a long way, we've got a lot more work to do to make sure that the recovery reaches every single American out there and not just those at the top. That's what I've been calling middle class economics: the idea that this country does best when everybody does their fair share and everybody gets a fair shot and everybody is playing by the same set of rules.

And that last part—everybody playing by the same set of rules—is why we passed historic Wall Street reform that put in place smarter, tougher, commonsense rules of the road to protect consumers and to end taxpayer-funded bailouts. And by the way, I know that there have been times where folks questioned whether or not Wall Street reform works. If you look at how the banking system has responded, if you look at what's happened on Wall Street, when you look at how the markets gauge what we've done, reform has been meaningful. It has been effective.

That's why we passed a credit card bill of rights that gives consumers a simpler credit card bill: no more hidden fees, no more shifting deadlines, no more sudden changes of terms or "any time, any reason" rate hikes. It's why we created a new consumer watchdog agency that

[*] White House correction.

protects hard-working Americans from everything from predatory mortgage practices to payday loans that can destroy people's finances. And I want to thank our outstanding CFPB Director Rich Cordray and his team. They are working day in, day out to protect working families, and when families are taken advantage of, they've been working hard to get them their hard-earned money back.

Today, we're going to build on these consumer protections for the middle class by taking a new action to protect hard-working families' retirement security. Because, in America, after a lifetime of hard work, you should be able to retire with dignity and a sense of security.

And in today's economy, that's gotten tougher. Most workers don't have a traditional pension. A Social Security check often isn't enough on its own. And while the stark—stock market is doing well right now, that doesn't help folks who don't have retirement accounts. As a consequence, too few Americans at or near retirement have saved enough to have peace of mind.

So in addition to keeping Social Security strong—and we will keep it strong as I—as long as I am President. That is going to be a priority for me. In addition to keeping Social Security strong, I've proposed ways to make it easy and automatic for workers to save for retirement through their employer, including offering tax incentives to small businesses that offer retirement plans. And these proposals, it's estimated, would expand workplace savings opportunities to 30 million more workers. We've also proposed paying for them by closing tax loopholes for the wealthy.

At the same time, we've got to make sure that Americans who are doing the responsible thing by preparing for retirement are getting a fair share of the returns on those savings. That's what I want to focus on today. If you are working hard, if you're putting away money, if you're sacrificing that new car or that vacation so that you can build a nest egg for later, you should have the peace of mind of knowing that the advice you're getting for investing those dollars is sound, that your investments are protected, that you're not being taken advantage of.

And the challenge we've got is, right now there are no uniform rules of the road that require retirement advisers to act in the best interests of their clients, and that's hurting millions of working and middle class families. There are a lot of very fine financial advisers out there, but there are also financial advisers who receive backdoor payments or hidden fees for steering people into bad retirement investments that have high fees and low returns. So what happens is, these payments, these inducements incentivize the broker to make recommendations that generate the best returns for them, but not necessarily the best returns for you.

They might persuade investors, individuals with savings, to roll over their existing savings out of a low-fee plan and into a high-cost plan. They might even recommend investments with worse returns simply because they get paid to recommend those products. And one study by professors at Harvard and MIT had researchers send people to pose as middle class investors seeking investment advice from advisers. In 284 client visits, advisers recommended higher fee funds about half the time. The lowest fee funds were recommended only 21 times.

So think about what that means. You've done the right thing. You've worked hard. You've saved what you could. You're responsibly trying to prepare for retirement, but because of bad advice, because of skewed incentives, because of lack of protection, you could end up in a situation where you lose some of your hard-earned money simply because your adviser isn't required to put your interests first. And the truth is, most people don't even realize that's happening.

We read a story in the paper about Merlin and Elaine Toffel, a retired couple from near my hometown of Chicago, Lindenhurst, Illinois. They had worked their whole lives so they could rest easy in their golden years. They got bad advice to invest in expensive annuities that made it hard for them to access their money. Suddenly, they were short on cash, which is exactly what they had tried to avoid by saving and acting responsibly all those years. They were taken advantage of by an adviser of an institution where they had been longtime clients, and it was an institution they trusted. And Merlin now lives in a nursing home, and he and Elaine aren't here today. As they get older, their children are trying to help them get all this sorted out. And that's just one family. They're not alone.

On average, conflicts of interest in retirement advice results in annual losses of 1 percentage point for affected persons. Now, I know 1 percent may not sound like a lot, but the whole concept of compounding interest, it adds up. It can cut your savings by more than a quarter over the course of 35 years—cut your savings by more than 25 percent. So instead of $10,000 in savings growing to more than $38,000, it will grow to just over $27,500. That's a big spread. And all told, bad advice that results from conflicts of interest costs middle class and working families about $17 billion a year—$17 billion every year.

So you can put a number on how this affects us. But it affects something else. It offends our basic values of honesty and fair play. The values that say, in America, responsibility is rewarded and not exploited.

Now, I want to emphasize once again, there are a whole lot of financial advisers out there who do put their clients' interests first. There are a lot of hard-working men and women in this field and got into this field to help people. They're folks like financial adviser Sheryl Garrett, from Arkansas, who says, "The role"—is Sheryl here? There she is. Sheryl, stand up just so we can give her a round—[*applause*]. We're proud of Sheryl. So I'm quoting you, Sheryl. [*Laughter*] Sheryl says: "The role of a financial adviser is one of the most important jobs. But there is a segment of the industry today that operates like the gunslingers of the Wild West. We don't have the rules and regulations to protect those who we're supposed to be serving."

Couldn't have said it better myself, which is why I quoted you. [*Laughter*] Sheryl is right. The rules governing retirement investments were written 40 years ago, at a time when most workers with a retirement plan had traditional pensions and IRAs were brand new and 401(k)s didn't even exist. So it's not surprising that the rules that existed 40 years ago haven't caught up to the realities of most families today. Now, outdated regulations, legal loopholes, fine print—all that stuff today makes it harder for savers to know who they can trust. Financial advisers absolutely deserve fair compensation for helping people save for retirement and helping people figure out how to manage their investments. But they shouldn't be able to take advantage of their clients. The system makes it harder, in fact, for those financial advisers like Sheryl who are trying to do the right thing, because if she's making really good advice, but somebody who is competing with her is selling snake oil, she's losing business. And ultimately, those clients are going to lose money.

So today I'm calling on the Department of Labor to update the rules and requirements that retirement advisers put the best interests of their clients above their own financial interests. It's a very simple principle: You want to give financial advice, you've got to put your client's interests first. You can't have a conflict of interest.

And this is especially important for middle class families, who can't afford to lose even a penny of the hard-earned savings that they've put away. These folks aren't asking for any special help or special consideration. They just want to be treated with fairness and respect. And that's what this new rule would do. And for outstanding financial advisers out there, it levels the playing field so that they can do what they know is the right thing to do: putting their clients first.

Now, here's one last element of it I've got to emphasize. Just because we put forward a new rule doesn't mean that it becomes law. There are a lot of financial advisers who support these basic safeguards to prevent abuse, but there are also some special interests that are going to fight it with everything they've got, saying that these costs will skyrocket or services are going to be lost.

But it turns out that we can actually look at the evidence. These industry doomsday predictions have not come true in other countries that have taken even more aggressive action on this issue than we're proposing. And if your business model rests on taking advantage, bilking hard-working Americans out of their retirement money, then you shouldn't be in business. That's pretty straightforward.

So we welcome different perspectives and ideas on how to move forward. That's what the comment period for the rule is all about. What I won't accept is the notion that there's nothing we can do to make sure that hard-working, responsible Americans who scrimp and save somehow end up losing some of those savings to less than scrupulous practices. We should be able to make sure that folks are treated fairly and give every possible assistance we can so that they can retire with security and dignity.

So we're going to keep on pushing for this rule. It's the right thing to do for our workers. It's the right thing to do for our country. We are thrilled that AARP is supporting this, but AARP is not alone. We've got all kinds of organizations that are stepping up: consumer advocates, civil rights organizations, labor organizations. We've got a great coalition of people who understand that the strength of our economy rests on whether hard-working families can feel more secure, knowing that if they do the right thing, they can get ahead. And that's what I'm going to keep fighting for: an economy where not only everybody is sharing in America's success, but they're also contributing to America's success. This is a important component in that basic promise that makes America the greatest country on Earth.

So thank you so much, everybody. God bless you. God bless America.

NOTE: The President spoke at 2:05 p.m. In his remarks, he referred to Jo Ann Jenkins, chief executive officer, AARP; Tammy and Christopher Lombardo, daughter and son-in-law of Lindenhurst, IL, residents Merlin and Elaine Toffel; and Sherryl Garrett, founder, Garrett Planning Network, Inc.

Categories: Addresses and Remarks : AARP headquarters.

Locations: Washington, DC.

Names: Booker, Cory A.; Cordray, Richard A.; Delaney, John K.; Garrett, Sheryl; Jenkins, Jo Ann; Lombardo, Christopher; Lombardo, Tammy; Perez, Thomas E.; Toffel, Elaine; Toffel, Merlin; Warren, Elizabeth.

Subjects: AARP; Business and industry : Credit cards, regulations and consumer protections; Consumer Financial Protection Bureau; Economy, national : Consumer Financial Protection

Bureau; Economy, national : Financial regulations, modernization efforts; Economy, national : Financial regulations, strengthening efforts; Economy, national : Improvement; Economy, national : Strengthening efforts; Labor, Department of : Secretary; Social Security and retirement : Retirement accounts :: 401(k), 403(b), and IRA accounts; Social Security and retirement : Social Security program; Taxation : Tax Code, reform.

DCPD Number: DCPD201500119.