Fiduciary vs. Suitability – Why Should You Care?

If you care about you or your family's financial future, you should care. Doesn't sound like much of a big deal, but these two words, fiduciary and suitability, play an important role in determining the type of care you receive from your financial professional. The public may not be aware that some financial professionals are held to a fiduciary standard, while others are held to a suitability standard.

Who is held to a Fiduciary standard of care and who is held to to a Suitability standard of care?

Currently, Registered Investment Advisers and Investment Adviser Representatives are required to act in a fiduciary capacity. On the other hand, brokers, or registered representatives working for a broker-dealer firm, as well as, insurance agents, are held to a suitability standard. Not sure who's a registered representative or a broker, check out www.brokercheck.finra.org.

What is the difference between Fiduciary standard of care vs. Suitability standard of care?

Fiduciary standard of care means doing what is best for the client; namely, always putting the client's interest before the advisor's interest. It also means disclosing any possible conflicts of interest including compensation related to products or referrals.

Suitability standard of care usually means a registered representative or insurance agent only suggest products that are suitable for your objectives, your income level and your age. Also, no disclosure is required for possible conflicts of interest.

Fiduciary vs. Suitability Illustration

Let's try a hypothetical example: buying a car. A family of four makes $100k per year. Under a suitability standard, that family can afford a Porsche, so that's what the dealer can sell you. However, under a fiduciary standard, given all financial factors, a minivan is the choice that's probably in their best interest.

However, the rules will likely soon be changing. The new Department of Labor rule addresses what financial professionals will be required to act under a fiduciary standard. Under the rule, a fiduciary is a person who receives compensation for providing advice with the understanding it is based on the particular needs of the person being advised. A fiduciary can be a broker, Registered Investment Adviser or other type of adviser.
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If you're not sure if your financial professional is held to a fiduciary standard, ask. If you're uncomfortable working with a financial professional who is not a fiduciary, you can always seek out one who is.