

Regulatory Alert

Court Vacates DOL's 2024 Retirement Security Rule — Prior Regulatory Framework Remains in Place

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RECENT DEVELOPMENTS

A federal court in Texas recently granted a joint motion vacating the Department of Labor's ("DOL") 2024 Retirement Security Rule. The rule represented the DOL's latest effort to expand the definition of fiduciary investment advice under the Employee Retirement Income Security Act ("ERISA").

The court's decision effectively halts the DOL's most recent attempt to broaden the scope of fiduciary investment advice under ERISA. However, the ruling does not eliminate existing compliance obligations relating to retirement investment advice, including those associated with Prohibited Transaction Exemption ("PTE") 2020-02.

IMPACT

Although the 2024 Retirement Security Rule has been vacated, advisers should not assume that regulatory obligations relating to retirement investment advice have been eliminated.

Investment recommendations involving assets from an existing ERISA plan must continue to adhere to the requirements of the Prohibited Transaction Exemption ("PTE") 2020-02, particularly where an adviser recommends that assets be rolled over from an ERISA plan into an IRA that the adviser will subsequently manage or advise upon for compensation. In these circumstances, the rollover recommendation must be analyzed to ensure the recommendation is in the client's best interest and does not create undisclosed conflicts of interest. Documentation is required in order to comply with PTE 2020-02.

Examples of ERISA plans include:

- 401(k) plans
- Defined benefit plans
- Defined contribution plans
- Pension plans
- Deferred compensation plans
- Profit-sharing plans

By contrast, certain retirement vehicles are generally not governed by ERISA therefore as a result of this ruling, do not need to comply with PTE 2020-02 requirements. Examples of such vehicles include:

- Individual Retirement Accounts (“IRAs”)
- Annuities
- Government retirement plans
- Church plans
- Simplified employee pension (“SEP”) plans

However, advisers should note that investment recommendations involving these accounts still implicate other regulatory obligations, including fiduciary duties under the Investment Advisers Act of 1940, insurance suitability requirements, and/or other applicable standards.

CONTINUED RELEVANCE OF PTE 2020-02

As the 2024 fiduciary rule never became effective, the industry largely reverts to the longstanding regulatory framework governing fiduciary investment advice, including the Department of Labor’s 1975 five-part test for determining fiduciary status under ERISA.

Importantly, the court actions did not eliminate existing prohibited transaction rules or the exemptions used to address compensation conflicts.

PTE 2020-02 requirements remain in effect for investment recommendations involving ERISA retirement assets. Firms that rely on this exemption to receive compensation in connection with fiduciary investment advice must continue to comply with its conditions.

Among other things, PTE 2020-02 requires firms relying on the exemption to:

- Adhere to impartial conduct standards, including providing advice in the client’s best interest;
- Maintain policies and procedures designed to mitigate conflicts of interest;
- Provide required disclosures and documentation supporting advice recommendations and potential conflicts of interest; and
- Conduct an annual retrospective compliance review (within 6 months of Fiscal Year End).

Regulatory commentary following the litigation has emphasized that investment advice fiduciaries relying on the exemption should continue to comply with its requirements unless and until further rulemaking changes the framework.

KEY TAKEAWAYS FOR WEALTH MANAGERS

- While the latest DOL fiduciary rule has effectively been halted, firms should not interpret recent headlines as a rollback of fiduciary obligations applicable to retirement advice.
- Wealth managers that provide investment advice to ERISA plans, plan participants, or IRA investors - and that rely on PTE 2020-02 to manage compensation conflicts - should continue to maintain compliance with the exemption's requirements, including documentation and oversight obligations.

LOOKING AHEAD

The DOL has indicated that it may pursue future rulemaking related to fiduciary investment advice. According to the Department's regulatory agenda, the current administration has signaled that it may revisit the definition of "investment advice fiduciary" and potentially issue a revised rule as early as May 2026.

As a result, the regulatory framework governing retirement investment advice may continue to evolve.

In the meantime, firms should treat the current environment not as deregulation, but rather as a reversion to the pre-2024 regulatory regime, under which the Department of Labor's 1975 five-part fiduciary test and Prohibited Transaction Exemption 2020-02 remain central to the regulation of retirement investment advice.

If you have questions or would like to discuss, please contact your Optima relationship Partner or info@optima-partners.com.