Skloff
Financial Group

Redundant Fees Destroy Retirement Assets – What the Insurance Companies Do Not Want You to Know

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The problem? More than 80% of 403(b) retirement assets are invested in tax sheltered annuities. On the surface this sounds like a good thing, but hiding just underneath the surface is a very profitable, and little talked about, secret that is costing investors billions of dollars, $3.3 billion to be exact.

Insurance companies developed annuities so investors could invest their money and have all interest, dividends and gains sheltered from taxation — thus the term "tax shelter." Sounds good, right? But if you can only remember one thing from this article, here it is: 401(k), 403(b) and 457 retirement plans are already tax shelters! You get no additional tax advantage by investing in annuity products in these plans.

If approached by an insurance salesperson, ask the agent why they would recommend putting a tax sheltered product (an annuity) inside of a tax shelter plan like a 403(b). You will likely receive a blank stare. The insurance companies and annuity salespeople are generally obligated to lookout for their stockholders, not their investors. So, do not expect them to volunteer how their costs are destroying your retirement assets.

In addition to the underlying expenses inside the actual investments, the insurance company applies a second set of expenses called Mortality and Expense risk charge (M&E). Even the U.S. Securities and Exchange Commission (SEC) cautions investors on utilizing annuities inside tax shelters.

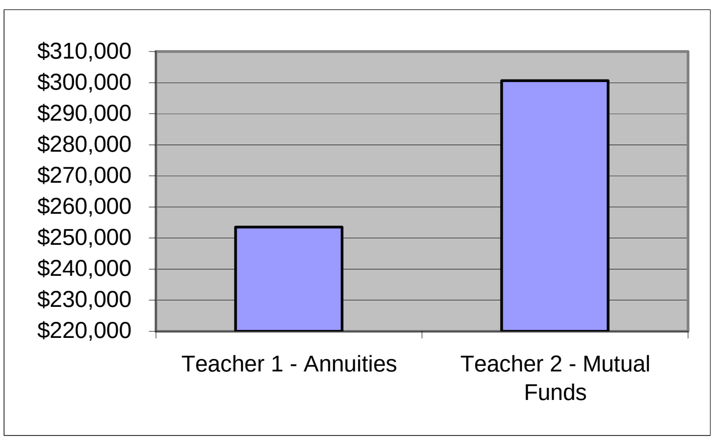
M&E: A $3.3 Billion Problem

How big is this M&E problem? Approximately 35% of 403(b) retirement assets are invested in tax sheltered variable annuities, or $200 billion according to the Spectrem Group. Applying the average M&E charge, which according to the Variable Annuity and Research Data Service is 1.40%, on top of the underlying expenses results in a $3.3 billion problem.

The Solution?: Mutual Funds

Instead of investing in annuities investors can invest in mutual funds. Unlike annuities, mutual funds do not have M&E. Thus, investors get to pocket the difference. Do not tell the insurance companies — you may upset their salespeople and stockholders. **Lest you forget, these companies and their employees must act in the best interest of shareholders – not you, their own clients!**

Let's look at a two school teachers who each invest $8,000 per year for 20 years.



Teacher 1 invests in a 403(b) using an annuity. Although her investments generate an annual return of 9%, the M&E charges bring the return down to 7.6%. Teacher 2 invests in a 403(b) using mutual funds with equal risk and generates a return of 9%. Teacher 2 is over $59,000 wealthier by simply avoiding the M&E inside the annuity. Do not forget, the

M&E charge continues as long as you have your money invested in a variable annuity — destroying your wealth well after you have stopped contributing.

Getting Out of Annuities
Stop redundant fees from destroying your retirement assets: exchange out of annuities into a more suitable mutual fund offering. Retired or terminated employees can transfer their 403(b) saving into another employer retirement plan or a Rollover Individual Retirement Account (IRA) with a vendor of their choice. Before completing a transfer, be sure to check if any surrender charges apply. They often do, and typically last for several years. If this is the case, you may still be better off if the new vendor has a stronger investment lineup. At the very least, cease contributing to the annuity product and stop throwing money out the window.

For obvious reasons, many insurance companies do not make it easy to exchange or transfer out of their products. Your biggest ally may be the company you wish to transfer to. Enlist them in your efforts.

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