Annuity fees a turnoff for clients and advisers

Products are ‘difficult to assess,' commission-based distribution seen as a problem

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Although annuities are getting more attention as a way to guarantee income in the wake of the 2008 market crash, clients aren't keen on the price that they have to pay, and advisers don't like the costly fees and commissions.

“Most portfolios have come back from 2008, so is it legitimate to only look at downturns?” said Bedda D'Angelo, an adviser with Fiduciary Solutions, speaking at the National Association of Personal Financial Advisors' national conference in Salt Lake City Thursday.

She addressed the idea that annuity holders were protected from the crash while other investors suffered. They didn't suffer all that long, Ms. D'Angelo said.

“I believe downturns come and go, but the market is basically headed up,” she said.

Ms. D'Angelo was speaking at a session on how annuities fit into the fee-only adviser's portfolio. The answer, she said, is that they rarely do, at least in their current form.

“I can see all sorts of situations where an annuity can be good,” Ms. D'Angelo said. Then “you find out how much you need to put up to get $30,000, $40,000 or $50,000 [in annual income], and that is a lot of capital. I just can't find annuities that work.”

She and fellow panelists, advisers Frederick Miller of Sensible Financial Planning and Management LLC, and Robert Ryan of Resolute Financial LLC, all reported client resistance to annuities.

“We are recommending annuities to a lot of folks,” said Mr. Ryan, who as a fee-only adviser said that he didn't stand to gain whether or not a client bought.

“They aren't taking them for a lot of reasons, emotional mostly,” he said of annuities.

Mr. Miller called annuity guarantees “difficult to assess” and said that the complexity of variable annuities with optional riders would almost require an actuary to properly assess them, though he does see benefits to some annuities.

He said that his ideal annuity product would be inflation-adjusted longevity insurance with easy-to-understand fees.

Mr. Miller sees a market for a hybrid that combined an annuity with long-term-care insurance.

All the advisers agreed that commission-based distribution is a problem and that some clients end up getting out of the annuity but have to pay a hefty surrender fee to do so.

“To design a good product, you'd have to eliminate the distribution source, a product with no bells or whistles, no load, no commissions” that combined inflation-protected securities with guaranteed income, Mr. Ryan said.

“That is something I would look at,” he said.