



Fee-Based Annuities: Why Stripping Out The Commissions Isn't Enough

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In general, RIA firms and their advisors have a complicated relationship with annuities. At best, they keep them at arm's length, while at worst they are openly hostile to them.

A long-held assumption is that commissions are to blame: Fee-only advisors don't charge them, so annuities are a complete non-starter. But while commissions are clearly one reason RIAs don't embrace annuities, it's far from the only one.

If it were, we would have seen a flood of new annuity assets raised in recent years as many insurance companies unveiled "commissionless" annuities. We certainly would have expected a swell in interest after the [IRS issued a 2019 private letter ruling](#) that allowed financial advisors to collect an advisory fee of up to 1.5% annually directly from clients' variable or fixed index annuity without triggering a taxable distribution for clients. Yet, we haven't seen a rush to these retirement savings vehicles – which suggests commissions were never really the only reason RIAs and their advisors avoided annuities in the first place.

Beyond commissions, here are other key reasons many RIAs still avoid annuities.

- **They believe they are too costly.** At one time, that may have been the case, especially when it comes to variable annuities. However, it is now possible for RIAs to access modern advisory variable annuities that exclude a long line of fees that at one time were standard. That includes commissions, surrender charges, 12b-1 marketing/distribution fees and additional expenses for previously-elected optional benefits that may no longer meet the needs of individual clients. As a result, fiduciary financial professionals can consider these products for their clients who are cost-conscious and can benefit from adding a variable annuity to their portfolios. In other words, innovative fee structures have emerged that acknowledge the evolution to how many financial professionals today choose to get compensated by their clients: through a percentage of assets under management.

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- **They've spent their entire careers selling against them.** Many RIAs have gone to great lengths to differentiate themselves by contrasting their approach with how registered representatives or insurance agents do business. RIAs would often argue that they sit on the same side of the proverbial table as clients, focused on delivering comprehensive and ongoing wealth management and financial planning advice. On the other hand, anyone offering any type of annuity was different. The perception was that not only were the products flawed, but anyone promoting them were nothing more than transactional salespeople. Even though annuities have evolved, some financial professionals may find it difficult to recommend something they've been railing against for years.
- **They think annuities are challenging to integrate into commonly used RIA tech.** Historically, it's been tough to integrate the product into an RIA's existing tech stack. Nobody likes to toggle back and forth between separate platforms, no matter what their business model is. It's wasteful and inefficient, and because RIAs are fee neutral, meaning they receive their same fee regardless of specific product utilization, they are not likely to recommend any investment vehicle that makes it more difficult to serve their clients and offer holistic advice. But more and more, this is changing, with providers now offering annuity products that RIAs can integrate into a broader range of portfolio management, billing and financial planning systems more easily.
- **The traditional distribution model is at odds with how RIAs do business.** RIAs do not sell products. They leverage an advice-driven, fiduciary model that largely prohibits receiving a payment that creates a conflict of interest, which includes commissions from product manufacturers. As a result, there is a material disconnect in the way insurance companies historically bring products to market versus how RIAs actually incorporate and recommend products for client portfolios. Carriers are starting to evolve their approaches to leverage RIA-dedicated professionals who can provide consultative guidance surrounding how incorporating annuities can help improve client outcomes.

The IRS made it possible to manage and bill directly on nonqualified variable annuities without triggering taxable events. Insurance companies, in turn, modernized products to permit advisory fee withdrawals that also do not reduce client benefits. Together, this has created a watershed moment. Clearly, though, the annuity industry has work to do to overcome some of the negative perceptions still lingering in the RIA marketplace.

But the fact is that these potentially valuable retirement savings vehicles have evolved over the last few years. The landscape has shifted so fundamentally, in fact, that RIAs owe it to themselves – and their clients – to let go of their preconceived notions and learn more about a product that many of them have loved to hate.



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