

\$1 A WEEK for 12 WEEKS [SUBSCRIBE NOW](#)

U.S. EDITION Monday, August 5, 2013 As of 9:19 AM EDT

- Home
- World
- U.S.
- Business
- Tech
- Markets**
- Market Data
- Your Money
- Opinion
- Life & Culture
- Real Estate
- Management
- Wall Street
- Heard on the Street
- WSJ.Money
- Stocks
- Funds/ETFs
- Bonds
- Commodities
- Currencies
- Wealth Mgmt
- CFO Journal

TOP STORIES IN WEALTH MANAGEMENT 2

Finra Fines Oppenheimer \$1.4M for Penny-Stock Deals



Helping Fulfill Philanthropic Dreams

7 of 12



Saving for a House With a Roth IRA

8 of 12



Using Social Security Benefit for College

WEALTH MANAGEMENT | August 5, 2013, 9:19 a.m. ET

Uncovering Hidden Annuity Fees

Article

Comments (7)

MORE IN WEALTH MANAGEMENT JOURNAL »

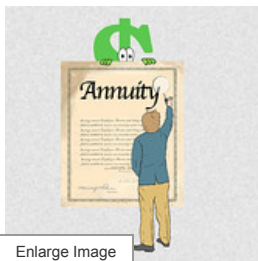
Email Print

YOUR FRIEND HAS SHARED THIS SUBSCRIBER ONLY ARTICLE WITH YOU **\$1 A WEEK for 12 WEEKS** [SUBSCRIBE NOW](#)

By CHRISTINE LEE

The 50-something couple came to Jeff Cutter's office last year to discuss an annuity they had purchased in 2005. They had read an article about annuity fees that Mr. Cutter had written in the local paper and wanted to know if their investment was subject to hidden costs.

The husband and wife had \$1 million invested in a mutual-fund portfolio, and had purchased an \$800,000 variable annuity through a previous adviser who told them that it offered a guaranteed 5% return.



Enlarge Image

Mr. Cutter is president of Cutter Financial Group, a Boston firm with 140 clients and \$40 million under management. As he began explaining how fees involved in variable annuities made it difficult to guarantee a fixed return, the husband seemed to get agitated.

The client was adamant that his variable annuity was different, so Mr. Cutter suggested calling the annuity provider to get the facts. With the couple listening on speakerphone, Mr. Cutter got a rundown of all the fees the couple was paying: 1.4% for administrative expenses, 1.1% for a

rider to lock in the 5% annual return, 1.2% for a mortality expense fee, wrap fees, and an adviser fee, which together totaled 5.8%.

"The guy was practically crawling up my back trying to see the numbers on my pad," Mr. Cutter says.

The couple was shocked that the cost of their annuity was higher than its annual return. Then, they revealed why they initially had challenged Mr. Cutter's assumptions: Their previous adviser was actually a close family member, and they couldn't imagine him misleading them about their annuity.

DOW JONES Private Equity Analyst CONFERENCE

A New Era in Private Equity

Beyond Traditional Investing

[LEARN MORE >>](#)

September 26-27 | New York City

THE NEW PORTFOLIO TOOL ON WSJ.COM: THE ULTIMATE INVESTMENT TRACKER AVAILABLE EXCLUSIVELY FOR SUBSCRIBERS

[LEARN MORE](#)

provided by LikeAssets

Don't Miss

[?]



Why College Kids Prefer PCs to Tablets



Five Bubbles Investors Need to Watch



Zimmerman Judge Rejects Possible Charge, and More

More in Wealth Management Journal

[Credit Line Pays Capital-Gains Taxes](#)

[Advisers Should Stay in Bond Funds](#)

[Voices: Amy Renkert-Thomas, on Estate Planning for Wealthy Families](#)

Popular Now

What's This?

That admission put the situation in a new perspective for Mr. Cutter. "My job wasn't just to fix their portfolio, it was to step in and save a family from breakdown," he says.

He talked to them for another 45 minutes, explaining that their previous adviser probably didn't intend to mislead them. He likely followed the rules of his firm and perhaps didn't fully understand the details of the annuity himself.

Mr. Cutter also decided to look further into their investments and saw that the couple's \$1 million portfolio was made up of high-risk mutual funds. Those funds had taken big hits in 2008-2009 and had barely recovered. As a result, their net return was just \$52,000 over the last 11 years.

Sensing that the couple needed time to process the bad news, Mr. Cutter encouraged a cooling off period. He suggested that they go home, think about their options, and not make any changes too quickly.

They called back within a week and asked Mr. Cutter to take over management of their assets. The husband later told Mr. Cutter that his relative had seemed defensive when he discussed the annuity fees with him--and they no longer felt comfortable with the financial relationship.

Mr. Cutter first had the couple write a letter to their annuity provider asking to be released from the investment. Although they had to pay a surrender charge of about \$10,000, that amount was less than the fees they would pay if they remained invested until the end of the 10-year term.

Mr. Cutter then suggested satisfying their need for stability by investing \$800,000 in a fixed-rate annuity with no fees and a 4.5% cap on returns. He also revamped the couple's investment portfolio with a new mix of investment-grade bonds for income and broad equity-index funds to provide growth potential.

As a result, in the past eight months their principal has grown from \$1.8 million to nearly \$2 million. And the satisfied couple has referred six friends to Mr. Cutter.

The biggest lesson: "Transparency is so important," he says.

JOIN THE DISCUSSION
7 Comments, add yours

MORE IN
Wealth Advisor »

Email

Print

Order Reprints

THE NEW PORTFOLIO TOOL ON WSJ.COM:
THE ULTIMATE INVESTMENT TRACKER
AVAILABLE EXCLUSIVELY FOR SUBSCRIBERS

LEARN MORE

provided by LikeAssets

Hot Must-Have Stock

Are You Ready for Sky-High ROIs? Get More Info!
www.LuxuriaBrands.com

Bank of America®

See How We Support Communities & Businesses with Lending & Investing
bankofamerica.com/about

Warren Buffett Confesses

Warren Buffett's Shocking Confession Will Change your Investing Strategy
www.MarketTrendSignal.com

Blue Fire Stock

Invest In The Future Of America's Oil Production. Buy Shares Now!
www.BlueFireEquipment.com

1 Opinion: Members Only



2 Heroin Makes a Comeback



3 Parents Scrutinize Online Camp Photos to Check on Kids



4 Google's Android Seizes Smartphone Market



5 Probe Turns Up Heat on Banks

Show 5 More

7% Annual Annuity Return

Get Guaranteed Lifetime Income and Reduced Risks to Retirees All Here.

AdvisorWorld.com/CompareAnnuities

Thyroid Problems

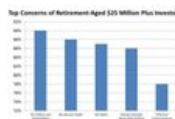
All Natural Safe Effective Remedy. Eliminate Thyroid Problems Fast.

www.ThyroCLR.com

HooplaHa.com

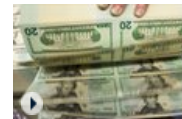
Wake up everyday with a smile at HooplaHa!
hooplaha.com

Content from our Sponsors [?]



MILLIONAIRE CLUB

Enjoying a Rich Retirement: It's Harder Than You



LIFESTYLZ.TV

A Lackluster Response to Earnings Season?



LIFESCRIPT.COM

Deborah Norville: "Devastated" By Rheumatoid

Don't Miss



BMW's New Electric Car to Rival Tesla Model S



Tara Costa Sued for Weight Gain



Bronx 14-Year-Old Is Shot by Police



Hedge-Fund-Like Mutual Funds Grow in Popularity

You Might Like

[How often should I really change my car's oil?](#)

[Cash-Balance Plan Preserves Disability Benefits](#)

[Why China Fears a 12-Year-Old Egyptian Boy](#)

[Voices: Brad Klontz, on Advisers Suffering From PTSD](#)

[Saving for a House With a Roth IRA](#)

Content from our Sponsors

[What's this?](#)

[Don't let your ex get your 401\(k\)](#) (Banks.com)

[The World's Top 5 Highest Paid DJs](#) (Las Vegas Weekly)

[Global MBA Rankings for 2012: Top 25 Business Schools Worldwide](#) (EducationBeat)

[Rich in America Part 1: What Does It Mean to Be Wealthy?](#) (Millionaire Club)

[Why Your Salary is Less Important than You Think](#) (Investopedia)

Add a Comment

[View All Comments \(7\)](#)

JOURNAL COMMUNITY

[Community rules](#)

All comments will display your real name. Start typing your comments here...

Track replies to my comment

CLEAR

POST

[Login with Facebook](#)

\$1 A WEEK for **12 WEEKS**

GET A DIGITAL & PRINT SUBSCRIPTION

SUBSCRIBE NOW

Editors' Picks



Paul Rudd Goes Outdoors for 'Prince Avalanche'



Rail Project Uncerths London Tales



TB is Main Cause of Death in South African Prisons



Hong Kong Links Child Sex Abuse to Social Media



Parents Scrutinize Online Camp Photos to Check on Kids



[Subscribe](#)

[Back to Top](#)

Customer Service

[Customer Center](#)

[New! Live Help](#)

[Contact Us](#)

[WSJ Weekend](#)

[Contact Directory](#)

[Corrections](#)

Policy

[Privacy Policy](#)

[Data Policy](#)

[Copyright Policy](#)

[Subscriber Agreement
& Terms of Use](#)

[Your Ad Choices](#)

Advertise

[Advertise](#)

[Place a Classified Ad](#)

[Sell Your Home](#)

[Sell Your Business](#)

[Commercial Real Estate Ads](#)

[Recruitment & Career Ads](#)

[Franchising](#)

[Advertise Locally](#)

Tools & Features

[Apps](#)

[Newsletters and Alerts](#)

[Graphics & Photos](#)

[Columns](#)

[Topics](#)

[Guides](#)

[Portfolio](#)

[Old Portfolio](#)

More

[Reprints](#)

[Content Partnerships](#)

[Conferences](#)

[SafeHouse](#)

[Mobile Site](#)

[News Archive](#)

[Jobs at WSJ](#)

Copyright ©2013 Dow Jones & Company, Inc. All Rights Reserved.