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## Annuities: High Fees Lower Investment Return Like

By Susan Carr-Templeton

The insurance company guarantees this [annuity](#) will earn 7 percent per year or the return of the mutual funds in which the money is invested, whichever is greater. Sounds like an attractive arrangement, but it's not and here's why.



First, the fund's returns are less because of the high 3.5 percent fees so the overall return during the life of the annuity will be substantially lower than what you could have gotten by investing directly in a mutual fund (with fees as low as 0.17 percent for an index fund). But it gets worse...

Here's the catch: In order to get the guaranteed return, you have to annuitize. That means, if you want the 7 percent guarantee, you cannot take a lump sum or redeem your funds from the annuity (if you do try to pull your money out, you get the market value based on the returns less the 3.5 percent annual fees).

When you reach some predetermined retirement age, the insurance company pays you a fixed amount each month until you die. If you look at the paltry annuity payout, you realize that unless you live to a year that is so beyond comprehension, you lose a lot, and the insurance company and your broker make a lot of money off of you.

Problems with annuities are not new. In 2008, the SEC, NASD and Securities Law Information Center published a [paper on the issues](#) associated with annuities. Not much has changed since then.

Annuities are not all bad and do serve a purpose, but broker-sold guarantee return type annuities tend to give the rest of the industry a bad name.

I understand that many Americans fear not having enough money for retirement, especially after the recent financial crisis--it's a valid concern. If you're looking for a market return strategy with some downside protection, you should consider some strategies that are far better than an annuity.

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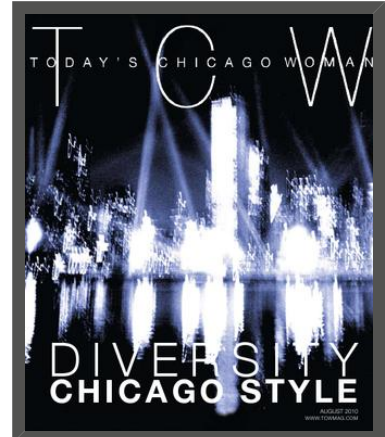
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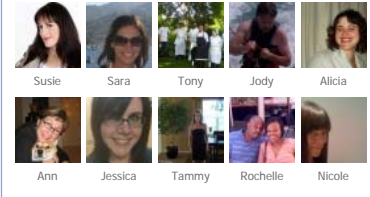
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