



Nexus Notes

June 2019

Friends,

5 months into 2019 we are where we ended 2018. Market volatility is alive and well. I could mention a couple of reasons for the current volatility. By the time you read this, however, the reason will probably be different. Let's just say the market will be, just as it always has been, volatile.

It must be bad. In a previous newsletter I mentioned a certain investment company founder who states "I would die and go to hell before I sold an annuity" on television commercials aired by the business networks (*Nexus Notes, May 2017*). I highlighted this quote to point out that no tool should ever be ruled out when doing a holistic financial plan. Annuities, just like anything else, can be the exact tool to help achieve a specific goal. With that in mind, there is an area where I could agree almost 100% with his sentiment. This would be annuities sold to teachers in school district 403b plans. More specifically, variable annuities.

History lesson. Well, maybe not. I don't want to bore you. Let's just say that the 403(b) landscape for teachers in kindergarten through 12th grade used to be the wild, wild west. Any company could offer any of its products to teachers under an "any willing vendor" model. In 2001, the Texas Teachers Retirement System was given the authority to oversee 403(b) companies and products which reduced the number of vendors. However, there are still 65 separate vendors offering 10,520 eligible investment products to school district employees. The result? "Deer in the headlight" responses. Question: How is a teacher supposed to be able to select a reasonable investment vehicle? Answer: That's what the vendor salespeople are for. Another question: How are these salespeople paid? A worse answer: High commissions and fees baked into many of the available investment options. What are these high commission and fee products? Variable annuities. Michael Taylor, a local investment columnist published in the San Antonio Express News, began a series on the sad case of teachers' 403(b) plans a few weeks ago. Coincidentally, an article published in the May 27th edition of Barron's echoed the sentiments and illustrated some cases in New York state school districts.

First-hand experience. My first teacher client had a variable annuity by a reputable insurance company. I tracked down the prospectus for the annuity on its website. The prospectus was 444 pages long! Okay, 442 if you eliminate the cover page and the table of contents page. Within the prospectus is information on the various versions of the same product. Why different versions? Different expenses. Fortunately, the fee table wasn't hard to find. Bundled in the expenses are Mortality and Expense Risk fees, Annual Administrative Charge fee, and "Other" fees that cover the underlying investment expenses. All told, I calculated that my client was paying 2.71% in fees per year. And, that's not counting the back-end sales charge lasting 12 years on every purchase.

My second teacher client was in the same leaky boat. She was in the same product from the same company. When I asked her how she came to choose this particular investment option, she said she was told by salesperson that his company was the "preferred" company by the school district. SMH. For those who don't know, that's shorthand for "shaking my head". I've heard this a few times since from other teachers.

Help a teacher. There ARE options in the teachers 403(b) universe that ARE designed to help teachers achieve retirement and not to help the salespeople achieve theirs at teachers' expense. If you are a teacher, know a teacher, are related to a teacher, or otherwise want to help a teacher, please have them contact me. One of the firms I utilize is approved by TRS and allows me to offer investment options that strip out all extraneous fees leaving the straight cost of investment management along with my compensation (which is NOT commission-based). I was able to greatly reduce the annual cost of my teachers' 403(b) investments and they now see me for actual financial planning instead of a salesperson looking to make more commissions.

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