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Fees and expenses can nibble at your nest egg

By Ed Avis

That 1 percent fee called "fund expenses" on your variable annuity is nothing, right? And that 1.6 percent expense ratio on your mutual fund is worth it because it pays for expert advice, correct?

Not necessarily. Over time, such expenses can take a chunk out of your long-term savings.

"This has been a dirty secret in the industry for decades," says Chad Parks, founder and CEO of San Francisco-based Ubiquity Retirement + Savings. "Something that looks innocuous, say 1 percent, doesn't seem like a lot. But what people don't think about is the long-term compounded effect of that 1 percent. The difference between an 8 percent return versus a 7 percent return could be hundreds of thousands of dollars."

Mutual fund fees

The investment category with perhaps the most costly small fees is the mutual fund.

For example, many actively managed funds perform no better than index funds, yet the fees on actively managed funds are usually more than double the index fund fees.

"Typically, the expense ratio of actively managed mutual funds sits between 0.5 percent and 1 percent annually, whereas index

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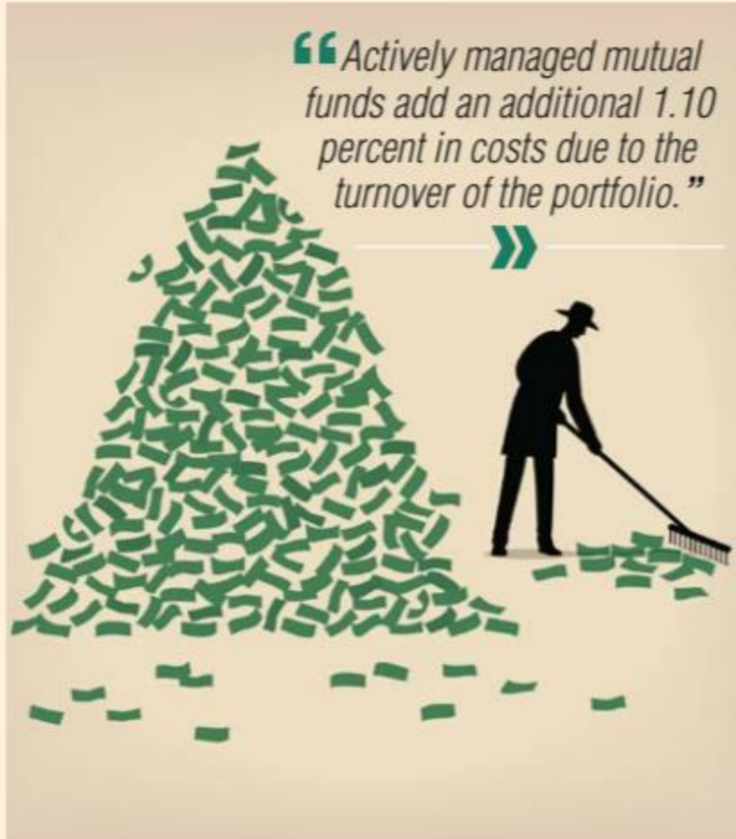
funds typically have an expense ratio that sits around 0.2 percent annually," explains Mike Karsa, senior director of Lido Advisors in Los Angeles. "When you consider that an actively managed growth fund typically has near perfect correlation to an index like the Standard & Poor's 500, what are you getting for that additional expense? On a $50,000 investment, that's an additional $150 to $400 in management fees per year, which will only compound over time."

The tax consequence of frequent trades is another expense related to active management of mutual funds, Karsa notes.

"Since active managers buy and sell stocks more often than an index, the investor is left holding the tax bill," he says. "Morningstar conducted a study revealing that actively managed mutual funds add an additional 1.10 percent in costs due to the turnover of the portfolio."



Financial adviser fees

Personal financial advisers get paid a variety of ways, ranging from an hourly rate to a percentage of assets. In some cases, the fee may outweigh the value of the service.

For example, if you have a retirement plan through your employer, you may be paying for the services of an adviser, even if you never see that person.

"If the adviser is really bringing value to the plan, those fees are OK," Parks notes. "But if you have an adviser attached to the plan and you've never seen them, that's a red flag. Go to the plan administrator and say, 'I'm seeing this fee on my statement, but I haven't seen this person in years.'"

Variable annuity fees

Chris Kampitsis, a financial planner at Barnum Financial Group in Elmsford, N.Y., notes that annuity contracts tend to have high internal fees.

"Variable annuities will traditionally have three layers of expenses to be aware of," Kampitsis says.

These include the "mortality and expense ratio," which is designed to cover the cost of death benefits and other income guarantees; rider costs, which cover the risk of whatever riders are on the annuity; and fund expenses, which are comparable to a mutual fund expense ratio.

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Insurance expenses

Another element of your financial life that may be eating up more cash than necessary is your home or auto insurance, especially if you renew your policies without seeking new quotes.

"I have multiple properties and cars, and for the longest time, when the insurance came up for renewal, I didn't bother to go back and negotiate," says Kenneth Ameduri, co-founder of Crush The Street, an alternative financial and economic news website and investment guide. "Then last year I decided to shop my insurance policies, and I was able to add on insurance for a new property for free based on the savings I had on the rest."

So what's the best way to avoid needless fees and expenses?

"Be aware of your options and ask questions," Kampitsis says.