Casey Mullooly: Welcome back to the Mullooly Asset podcast. This is episode 402. I'm your host, Casey Mullooly. Tom's with me this week on a hot Tuesday here in the middle of July.

Tom: Good afternoon, everybody.

Casey Mullooly: This week we wanted to talk about fees that people weren't aware they were even paying in the first place.

Tom: I wish this was a video so people could look at me when I say, I'm shocked. People don't know about fees.

Casey Mullooly: It's 2022. I thought everyone knew about fees. You've only been talking about it for the last decade, it seems.

Tom: I'm not blaming the end user, the client. A lot of it has to do with the marketing of products where they... A lot of products get marketed to unsuspecting people and it makes it seem like they're competitive with other... I don't want to say no cost, but low cost investments that are out there as alternatives. We have a pretty good example.

Casey Mullooly: Yeah. I was going to say, especially when they're not reporting the fees or they're not making the fees transparent to the customers, why don't you give us some more details about the specific instance we're talking about here?

Tom: So I'll just read the headline, "Equitable to Pay $50,000,000 for Misleading Teachers on Annuity Fees." Annuities, what a shock.

Casey Mullooly: Yeah.

Tom: So these things get marketed as great alternatives to investing in growth oriented investments like mutual funds and the stock market. But again, as you peel back the many layers of these different annuity products, you find out that each layer comes with a cost.

Casey Mullooly: Yeah. So I'm just going to read from the article here. There were 1.4 million investors that were materially misled by Equitable Financial life insurance company. Most of the investors who received the account statements are teachers or other employees of kindergarten through 12 public school districts. And since at least 2016, Equitable gave investors the false impression that their quarterly account statements listed all fees paid during the period, according to the SEC's orders, all the fees were not actually listed.

Tom: Yeah. So these are teachers and staff. In a lot of cases, these are people who don't have big bucks and they're putting money away. So every dollar counts. And these are folks that have this EQUI-VEST products. I can tell you from experience, we have sat down with clients who are teachers or in a 403B or in a 457 plan. These particular statements from EQUI-VEST are the worst in the industry. They are undecipherable. You cannot tell where your money's going, how much it costs, and what the returns are. I don't understand why they can't make this simpler or it's because intended to confuse.

Casey Mullooly: Because they're paid not to do that. I think in a lot of instances, and specifically this one, the, air quotes, advisors that are putting these teachers into these variable annuities and into these products are the ones that are on the receiving end of those fees. So it's really slimy because they make it seem like they're doing you a favor, getting you set up with your 403B, and what they're really doing is setting themselves up and it gives advisors overall just a bad rep.

Tom: It does. And we're not picking on the sales guy who hangs out in the teacher's staff room. He doesn't build the statements. So this is on Equitable for building these very misleading statements. They suck. I can't think of a better way to say it. But they showed that the transactions that you might be subject to were in some cases very low, but they excluded the most significant fees that investors paid from the fees listed on the statements. So what they did, the account statements listed as fees, only certain types of things like plan operating fees, transaction costs, administrative costs, most of the stuff amounted to nothing or zero. And so it looked competitive compared to other products.

Tom: Now, look, when your annuity sales guy or gal is hanging out in the teacher conference room, if he works for Equitable or works for a company like that, that's all they have to sell. They can't tell you to go into a Vanguard no-load mutual fund. They're there to sell their product. That's it, that's all they can offer. I thought it was amazing that as part of the SEC investigation, they reported that, in reality, the statements listed only certain types of fees that investors infrequently incurred. And more often than not the statements listed zero.

Casey Mullooly: I think it's really hard even for us, and I think we're on the simpler side of the whole fee discussion where there's the advisor fee and then there's the fee to own the investments themselves, which I think trips a lot of people up. But according to annuity.com, the average fee for variable annuity, which is what the EQUI-VEST is, is 2.3% of the contract value and can be more than 3%. 2.3%.

Tom: That's insane. We don't have a single client that pays even half of that.

Casey Mullooly: Yeah. And I think that when we talk about keeping things simple from a fee perspective, what that really boils down to is better investment performance and more dollars in the investor's pockets.

Tom: Yeah. Think about it. If they had... I don't know... Because every plan is a little different, but think if a school district offered a range of different growth funds and bond funds and had a stable value fund, and say the stable value fund had a yield of like 1.5% over the last couple of years, these people would actually make no money and might even lose money because of the costs associated with this product. They'd be better off just paying the tax and putting the money in the bank.

Casey Mullooly: Yeah. Or said another way, if you earn 10% on your investment, and your fees to own the investment are 2.3%, that means you actually only made 7.7%. So. What are the alternatives? What are the solutions for people that might not be aware that they're paying these fees or want to get out of these products? What can people do?

Tom: The first thing that they really ought to consider is working with an investment advisor who can examine these statements. If you don't have one, get in touch with us. You can click the link below or call us at 732-223-9000. We'd be happy to take a look at the statement for you and at least give you some insight as to what you're really paying or what are the fees that are embedded into the products that you have in your retirement plan at work. We can't necessarily manage it for you, but we can at least provide you with some insight and maybe a little guidance into what's actually happening under the hood.

Casey Mullooly: Think of it as getting a second opinion. Going to a doctor's office and getting a second opinion. Figuring out what you're paying is the first step in that process. And that's why they're hiding it. Because if these people knew what they were paying, then they would be looking for alternatives in the first place.

Tom: So years ago there used to be in just about every single school district, there were two or three different vendors that were permitted into say a school district 403B plan. So you could have an insurance company or two offer different products and then you could have a different investment company offer another one. There's a lot of places. Fidelity and Vanguard don't really seem to get into this kind of market. I'm not sure why, but you look at this and say, what we're seeing is a lot of school districts are now saying, well, you know, 90% of the people are with this one fund family. So we're just going to work with these guys.

Casey Mullooly: Yeah. It's almost inertia at this point. They don't want to go against the crowd because everyone else is doing it. There's that social proof aspect to it as well.

Tom: Part of that, yes. So. But when you see an account that's got $10,000, $20,000, and you're paying 1.5% to 2.3% a year on it, you say, well, okay, the math is I'm paying $230. I do get a tax break because the money's coming out pre-tax and I am saving money, which I may or may not do on my own without that. So there is some benefit to it. But holy mackerel. That is very, very expensive, an expensive way to do it.

Casey Mullooly: Especially when you look at over the lifetime of an investor.

Tom: So that's the other part of it is take the 300 teachers and 200 staff people, that's 500 people, in a small school district, and start doing a math. This stuff really does add up.

Casey Mullooly: Yeah. I mean, from a school district perspective, you could be talking about thousands of dollars of savings per year for the district. So that is like a whole nother podcast topic that we could get into. But like you said, I think figuring out what you're paying is the first step and definitely get in touch with us. Like you said, we'll do it free of charge. We'd be happy to help in that regard.

Tom: So I don't know if you caught this, Casey, but at the bottom of the article about Equitable, they mentioned the director of the SEC's division of enforcement, Gurbir Grewal. Do you know who he is?

Casey Mullooly: He is the head honcho of enforcement.

Tom: Right. So he's the guy who brings the hammer down on SEC actions. Prior to being in this role, he was the attorney general in New Jersey. From 2018, he was picked by Phil Murphy to be the attorney general from 2018 up through last year.

Casey Mullooly: Did not know that.

Tom: So he's new on the job and he's making an impression on a lot of people in the industry.

Casey Mullooly: Yeah. I mean, this is a big deal. The SEC coming and throwing down the hammer of $50,000,000 in... There was a civil suit filed against Equitable. That is not good. And a big deal. And...

Tom: You know, Equitable is not a little insurance company. And their claim was that Equitable violated the anti-fraud provisions of the Securities Act of 1933.

Casey Mullooly: Big no-no. Big no-no. So can't say I'm mad that they're throwing down the hammer. Because when you think about taking advantage of everyday folks like school teachers and school nurses and those people do enough for us overall. And the fact that they're getting taken advantage of by this firm here, again, we're not talking bad about any of the specific people. It's more about just the system overall. And I would really love to see this area get cleaned up.

Tom: It would be great because I can tell you, if I never see another EQUI-VEST statement again, it'll be a happy day.

Casey Mullooly: When they have to change the name of the investment, you know that something is not right.

Tom: Yeah. Not good. And it's funny when you would look at these statements, all the numbers... You would think when you look at a normal table of fund choices or plan investment choices and the costs or returns or whatever, it was always a vertical grid, and EQUI-VEST goes across the page horizontally. And so you would see like 3, 6, 9 months, and then on the second page you had to line up the columns exactly on paper to see, oh, that's the one year number. This is the five year number, 10 year. Why are you being deceptive like that?

Casey Mullooly: It's like putting together a cipher.

Tom: Yeah. It is. Or at least a jigsaw puzzle. So it's not cool.

Casey Mullooly: Some red flags, seriously, but like you said, you have to know what you're looking for. And for us in the industry, it's hard enough.

Tom: I would just feel bad... When I see these kind of statements come in from folks, they don't have a lot of options at work to choose from. And it's like, okay, this is not a good plan option that you have, and you can't really opt out of it unless you want to be aggressive and diligent and learn to save on your own outside your plan, you don't get a tax break. You got to be super, super organized and diligent to be able to do something like that. And people are busy. They got stuff to do.

Casey Mullooly: People deserve to know what their options are. And I think that that is the point that we're trying to get across here is that there are other options and there are definitely more investment options that you can choose to participate in. So we always say when we're talking to clients, it's not our job to make your decisions for you. It's our job to present you with all of the options and the financial implications of whatever decision you may choose. So we'd be more than happy to help any teacher out there know what their options are. Like I said in the beginning, we're recording this in the middle of July, so school is not in session. Hopefully all the teachers out there are getting some sun and relaxing and now might be a good time to take a look at your retirement account statements and get yourself set up heading into next school year.

Casey Mullooly: So something to consider and just wanted to let you all know that we're here to help. So that's going to wrap it up for episode 402 of the Mullooly Asset podcast. Thank you as always for listening. And don't forget to subscribe to us on Spotify or Apple or wherever you're listening to this podcast. We'll see you for 403.