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Fees vs. commissions: a rebuttal

By Curtis Cloke *Tue, Dec 21, 2010*

After Iowa advisor Curtis Cloke wrote to RIJ about our article, "Singing from the Fee-Only Song Book" (November 17, 2010), advisor Glenn Daily commented on Cloke's letter. Cloke sent this letter in rebuttal of Daily's comment.

Mr. Daily's assertion that, *"Fees can be tax deductible, depending on the taxpayer's situation"*, is correct. But miscellaneous itemized deductions, including investment expenses, are generally limited to the amount of expenses over and above 2% of the client's adjusted gross income (AGI).

My first point is this: When an advisor charges a one percent investment management fee for three years in lieu of a 3% commission on a $100,000 insurance product, since the fee is being charged an inch at a time ($1,000 yearly), the tax payer may be less likely to exceed the annual 2% of adjusted gross income (AGI) threshold required for the tax deduction, and therefore less able to deduct such a fee.

In addition, the original story centered solely on the fees and commissions of single premium immediate annuities and deferred income annuities. These annuities are different and distinct from all other annuities.

Mr. Daily wrote, *"Separately-paid fees are more efficient than amortized commissions, because the insurer's cost of capital is likely to be higher than the consumer's opportunity cost of money."* As evidence, he cited the article, "Credit Card Approach to Pricing" *(Product Development News,* August 2000. I have no quarrel with the article, but its subject was a deferred annuity with a bonus, not an income annuity.

As an advisor, I prefer to be positioned to provide both methods of compensation—fees and commissions. It's more important to understand their differences than to proclaim that one is better or worse than the other in all situations.

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