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YOUR MONEY

The 21 Questions You're Going to Need to Ask About Investment Fees

Your Money

By RON LIEBER FEB. 10, 2017

So much hand-wringing over such a simple proposition: When a financial professional gives you advice about the life savings in your retirement account, that person ought to act in your best interest.

It took several years for this so-called fiduciary rule to gain approval — firms are supposed to begin following the new rules in April — thanks to pushback from people in the financial services industry. And then, in the course of a week, we've seen President Trump tell the Labor Department to study this uncontroversial (and already much-studied) proposition, which he wants to upend. A few days later came a big loss for industry players who challenged the legitimacy of the rule in Texas, where a federal judge ruled against them.

But let's put the focus back where it belongs: not on politics or the law, but on you. The best way to understand what the fiduciary debate is about — and to protect yourself — is to view this discussion through the lens of fees.

Every time you do business with people in the financial services industry, ask them this: How much money are you making, and what are the different ways you are making it?

If only there were a simple answer to this question all of the time. All of this fiduciary wrangling got started in large part because there has rarely been a simple answer in many parts of the industry.

"The fiduciary rule ultimately comes down to the fact that some people are making a lot of money at the expense of other people who have no idea how much their adviser is getting paid," said Lynn M. Dunston, who runs a financial planning firm in Denver, where the only fees he earns come directly from clients.

The best (and by far, the funniest) explanation I've seen of what a fiduciary is and does comes from a video that a firm called HighTower Advisors posted on YouTube in 2012. There, they compare butchers and nutritionists. Butchers push meat, perhaps the best meat they have. Nutritionists, however, tell you what is best to eat, period, because they have your best overall health interests at heart and have no stake in how much meat you consume.

When seeking advice on your life savings, presumably you would want to speak to the nutritionists and not the butchers. But the butchers of the financial world are in a pretty good spot right now. After all, we have just seen eight years of stock market gains. With an unpredictable new president in the White House, people have reason to be wary.

So enter the annuity peddlers, and others touting safety, protections from downside risk, guarantees and the possibility of participating in future market gains, too. And wouldn't you know it? The way these salespeople sold those products during the last downturn was a big part of what pushed the proponents of the fiduciary rule to act.

You will be seeing these pitches soon enough, and when you do, there is a long list of questions you must ask. In fact, anytime anyone is trying to sell you an actively managed mutual fund, a real estate investment trust, or REIT, that you don't understand or anything else even remotely confusing, hit them with each and every one of the following questions:

How much money will you personally make in cash commission, now, if I select this product? And how much will you make later, in any sort of ongoing or trailing commission?

Is there a bonus you are eligible for that comes as a result of your recruitment to this firm? Is it in jeopardy if you don't make this sale?

Are you earning more from selling me this product than you might from putting me in a similar product from a different company? Are you earning more than you might if you put me in a different vehicle from the same company?

Is your company or the company that created this product running any contests that might lead to you getting to take a free trip if I buy this product? (For a fun virtual tour of the places your salesperson might go, see the two reports that Senator Elizabeth Warren has put out in the last couple of years.)

And while we are discussing trips, do any of the companies that you work with offer "due diligence" trips? You know, the ones where you spend an hour learning about the products and 10 hours drinking and golfing? "My wife reads on Facebook that one of our mutual friends is down in Orlando at a fixed annuities conference," said Patrick Rush, who sold annuities in a former life and is now a financial planner in Greensboro, N.C. "She's like, 'What is going on? How come you don't win anything?' "

Now, what about other forms of payment, say in points that you might redeem for merchandise? Mr. Dunston of Denver once sold annuities before he came upon what he describes as a better way to help clients (and his blog post on the journey is well worth a read). After a couple of big sales more than a decade ago, he had earned enough credits to exchange them for a diamond ring for his wife worth about $3,500.

The annuity provider, Allianz, told me that a thorough search of its records did not yield information that confirmed Mr. Dunston's story, but Mr. Dunston said that it may have been a third party that ran the incentive program, and that he is certain he earned those points and that spiffy ring through Allianz. "You can see why advisers might be conflicted about offering something like this versus a low-cost index fund," he said. "But I really thought I was doing the right thing at the time."

More questions! Do you get to eat lots of free food? Mr. Rush, the Greensboro planner, well remembers all of the so-called plate-licker seminars he once attended at Ruth's Chris, the steak house chain, courtesy of various financial services companies.

How about hoops tickets in basketball-mad parts of the country? "There were certainly people who could provide Carolina or Duke seats," he said. "You knew who to call. They weren't going to be putting you up in the nosebleed seats either."

Then, there is some nitty-gritty. You will be offered all sorts of product features and extras, and you will need to ask the following questions:

How much extra will I pay in fees (or how much might I sacrifice in returns or payouts) if I elect to receive a sign-up bonus on my annuity? Or for a guaranteed minimum income or benefit if I elect to take my money in monthly payments starting at some later date? What if I want a death benefit for my heirs? Are there specific charges for the insurance component of the product? Are there any penalties for pulling my money out early?

As for any subaccounts in my annuity, are there expense ratios or fees for the money there? A separate management fee? Trading fees? A record-keeping or other administrative fee? Please provide me an itemized list for any and all fees, thank you!

Finally, does your firm stand to collect any fees that you yourself will not share in as part of your commission because they have favored one product or another or limited their platform to certain products and locked out others?

There is no right answer to these questions, not exactly anyway. Some annuities can be useful (especially the simple fixed, immediate ones and similar products known as longevity insurance), and in some other cases you may get what you pay for in peace of mind. But many other annuities may cost 3.5 percent annually when you add up all of the fees. For about one-third of that or even less in some cases, you can find a fiduciary adviser who will give you all-you-can-eat advice on every aspect of your financial life and put you in solid (if boring, and simple) investments that cost a tiny fraction of what many annuities do.

It's anyone's guess how much regulators will ultimately be looking out for you. All Jillian B. Rogers, a Labor Department spokeswoman, would say was that it is exploring options to delay the applicability date for the fiduciary rule. And she would not explain on the record why the department removed an explainer on the rule from its website recently, though an archived version is pretty easy to find.

Whatever happens, however, so much will hinge on squishy terms like suitability, best interests, the reasonableness of fees, legal exceptions to any and all standards and whoever is adjudicating any disputes.

Rather than get caught up in all of that, it's probably best to protect yourself from the outset. And in an industry that makes a game of hiding lots and lots of fees every which way, the best possible response is to ask lots and lots of questions.

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A version of this article appears in print on February 11, 2017, on Page B1 of the New York edition with the headline: Pepper a Financial Adviser With Questions About Fees.