NATIONAL UNDERWRITER

Why Put Ira Money Into A Fixed Annuity?

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A frequently asked question is, "Why would anyone want to put IRA money into a fixed annuity?"

Clients ask the question and financial columnists write articles about it with comments like, "It doesn't make sense to put tax deferred money inside another tax deferred wrapper."

Well, I beg to differ. When someone ask me the question, my answer is, "There are several good reasons why you should put some or all of your IRA money in a fixed annuity." Then I start to explain.

The first point to consider is the interest rate. If a bank, savings and loan, or credit union is paying a higher interest rate, you should put your money there.

But, if a fixed annuity is paying a higher rate, you should put your money in one of those. It boils down to a simple comparison of rate to rate.

Another consideration, unique to an annuity, is the ability to annuitize. Many clients will use the single-life or two-life Internal Revenue Service table to recalculate the required minimum distribution, an option available on all IRAs.

Then after a few years, for reasons that make sense to them, they decide to annuitize, choosing from a wide array of annuity options.

For example, after his wife passed away, an 82-year old client told me, "I'm tired of fooling with this thing each year (meaning the IRS table). I want to convert to something that will pay me the maximum amount each month for as long as I live."

Since there were no children, a life only annuity seemed, to him, like a reasonable thing to purchase.

I did advise him against buying a life-only – because doing so would lock in his money permanently, and because distant relatives might, upon his death, complain he was pressured into buying such a product so late in life.

But the man insisted he wanted a life-only annuity. He was tired of doing those IRS computations!

So, we made the arrangements. But, just in case a long-lost nephew out there someplace, who wouldn't think his uncle made the right decision in allowing the insurance company to be his ultimate beneficiary; I asked my client to sign a letter stating that he fully understood how a life only annuity worked.

Included in the letter was a statement that I had advised him against a life-only annuity.

I've talked to the man several times since then and he is very happy with the "deal."

By the way, he became a client by moving his money from a bank to one of the insurance companies I represent.

He has told me that he did so originally because my company paid a higher rate, but now he stays with me because he has someone with whom to talk over his financial decisions.

As he put it, "I don't know anyone at the bank anymore and the name of the bank changes so fast, they just put a sign up using finger paint on butcher paper!"

Another frequent question is, "Why would anyone put IRA money in a fixed annuity when they can make so much more in a variable annuity or mutual fund?"

Let's rephrase the question, why do some people drive a Ford rather than a Corvette?

The answer is, because, not everyone wants to drive at 120 miles per hour. Most people prefer a high comfort car as opposed to a high performance car.

People put their money in the same type of places that fit their personalities.

When another client recently retired, he transferred his company's pension plan into a fixed IRA annuity. He said, "I moved my money because I just didn't want the people at my company keeping their nose in my business."

Then he added this telling comment, "Everyone keeps telling me I should be in the market, but, you know, I'd rather get 6.5 percent and sleep well at night rather than get 20 percent and have to worry about it all the time."

There are still millions of people with billions of dollars, just like that client. As long as this simple fact remains true, fixed annuities will continue to be sold in both the qualified and non-qualified markets.

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