

# **The Advantages of Using Variable Annuities Inside Your IRA**

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Normally, you would think that the use of a variable annuity, which is in and of itself an investment which produces deferral of income, would not be a suitable asset for investment by an IRA or a Qualified Plan, since an IRA or a Qualified Plan already provides income tax deferral on the earnings. This is putting a tax deferral investment inside an existing tax deferral plan.

## **INVESTMENT FLEXIBILITY**

However, there are some very good reasons why an annuity is often a sound choice for funding an IRA. These include MULTI-MANAGER Annuities. Many variable annuities offer the investor the opportunity to choose among dozens of different subaccounts from dozens of different money management firms and switch among them without needing to go through the complexities of a Trustee-to-Trustee transfer or incur cost in conducting such a transfer.

## **INSTITUTIONAL MANAGERS**

Some variable annuities offer subaccounts managed by some very well respected institutional managers whose normal minimum sized account is far greater than the investments which most people have in their IRA. Thus, these institutional managers would not be available as a resource to the small investor. However, by using a variable annuity, you can obtain professional institutional money managers.

## DEATH BENEFIT GUARANTEES

Many variable annuities provide a guaranteed death benefit. Thus, if you make an investment inside a variable annuity anticipating that the investments will increase, but instead, as in today's market, the investments decline, the death benefit guarantees can be very useful. With a death benefit guarantee your investment can be partially protected from such decline. That is to say that at your death, your beneficiaries could receive more than you would receive because of the decline in the investments inside of your variable annuity. To some investors, these death benefit guarantees are significant advantages.

## COSTS

The total cost of some variable annuities is comparable to the load or fee charged by the mutual fund company to you when you make an investment with the mutual fund company in what they call "A" shares. If you were to invest in load mutual funds, the financial planner or stock broker earns a commission which is paid by the mutual fund company to the financial planner or stock broker involved in the transaction. Your cost is the reduced investment. That is to say with a 2% load, or front end fee, you would invest \$10,000, but only \$9,800 would be working for you. Thus, you would need a \$200 appreciation in the investment before you are back to even. Thus, mutual funds have a cost of acquiring. You need to compare this cost to the cost of purchasing a variable annuity. The notion that all annuities are "too expensive" simply does not survive serious scrutiny. It is important to look at all of the cost involved in purchasing investments. A good financial planner or stock broker can work with you to help analyze this situation.

## NEED TO USE PROFESSIONAL ADVISORS

A good financial planner or stock broker is worth his or her weight in gold. Look for a financial planner or stock broker who understands your views and goals. Make sure your financial planner or stock broker understands how much risk you are willing to take. This is referred to as your risk tolerance. Remember, no one wants to lose any portion of their investment, but by taking some risks, many times you can achieve a greater total return. You need to have a professional analyze your financial situation and find out what is best for you.

## SMALL INVESTORS

For the IRA holder who has a \$50,000 IRA, I maintain that the total cost of having a fee-only financial advisor, financial planner and/or stock broker being the manager of your IRA account who would then in turn invest only in no load

mutual funds, does not necessarily produce the lowest cost. You would think by using no load mutual funds and paying a flat fee for your financial advice, that it would produce the lowest cost to you. However, by looking at variable annuities as an investment, this may produce a lower cost. This is true because the annuity company does much of the “back-office” work for the financial planner or stock broker. The total cost to the client in being invested in a variable annuity may be 2.25% per year of the amount invested. Thus, on a \$50,000 investment, the total cost would be \$1,125 (\$50,000 x 2.25%). Most financial planners or stock brokers would not be able to provide you the same level of services on a flat fee basis using no load funds.

## SUMMARY

The above thoughts have been presented to you as independent advice. I do not sell investment products. However, as a Tax Attorney, CPA, and Board Certified Elder Law Attorney, I realize that it is important to seek professional advice. For more information I would suggest that you contact either a financial planner or stock broker.

### **“Those Who Plan Ahead Win. Those Who Don’t Plan Ahead Lose.”**

This article is not intended as legal advice. It is basic information. I would recommend that you call Attorney Timothy P. Crawford for a free conference to discuss your situation in more detail. Attorney Timothy P. Crawford can be reached toll-free at 1-888-634-6675. When you call in, please mention the fact that you have read this article.

\*Attorney Timothy P. Crawford is a Board Certified Elder Law Attorney(CELA). He has been Board Certified by the National Elder Law Foundation which has been approved as the Sole Certifying Organization for Elder Law Attorneys by the American Bar Association.

\*\*Timothy P. Crawford was invited to join the Council of Advanced Practitioners of the National Academy of Elder Law Attorneys (NAELA) in August of 2005. The Council of Advanced Practitioners (CAP) is a small group of premier elder law attorneys, all of whom have been members of NAELA for at least 10 years, are certified as elder law attorneys by the National Elder Law Foundation, and are AV rated the top in the nation by Martindale Hubbell. A Service that provides an independent rating of the quality of attorneys.

### **GREATER MILWAUKEE AREA OFFICES IN BROOKFIELD, GLENDALE, MILWAUKEE & RACINE**

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