Should I invest my inherited IRA in a variable annuity?

I inherited my husbands IRA worth $232,000. Should I invest it in a variable annuity that will charge me 1.65% per year. They say I will have complete access to it at anytime with no surrender charges. Is this a good way to go? They are going to put $45,000 in cash earning 1.0%. The remainder will be invested in conservative mutual funds. They claim I will not have to pay more fees for the mutual funds. Is this a good idea?

ANNUITIES, IRAS

ANSWERS

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My sympathies to you as you grieve your husband's death.

PLEASE say you haven't done this yet!

In no way, shape or form should you consider investing an inherited IRA into another tax-sheltered investment, least of all an annuity, which contains substantial Mortality & Expense charges that would otherwise needlessly reduce your balance.

The only annuity that allows one complete access to all the principal is a no-load annuity and very few of them are 'sold', such that you probably wouldn't have stumbled upon this idea. I rather believe that a commission agent has recommended this strongly to you, since there is a VERY healthy commission attached to the sale; read anywhere from 4-10% with various bonuses, AND most likely credit towards that agent's award trip offered by their sponsoring company.

So, that said, IF you still have your husband's Inherited IRA, please consider your cash flow needs from this sum of money and invest in a diversified portfolio of indexed, (institutional preferably, since the expenses are razor-thin compared with the expenses on a retail offering) no load mutual funds or Exchange Traded Funds. The mix of assets will be determined on a couple of facts: your need for income, your age, your overall need to grow the monies, and your propensity to withstand some short-term price volatility.

Final reminder, bond prices fluctuate too. And if you buy a bond and do not hold it until its maturity, you could suffer price depreciation at the time of sale. And if you buy a bond mutual fund, your risk of losing principal is also present, especially if the duration/length of the bonds is over 5 years.

Interest rates and bond prices are on an inverse relationship, so as interest rates rise (as I believe they will in the next 5 years) the price, or principal will go down. Be aware of this, as some investors believe they can't lose money in bonds, which is not true, especially in a rising interest rate environment. Credit risk, of course, also contributes to the potential for loss in bond principal. Know that if a bond is paying you more than the current Treasury yield (which is often referred to as the risk-free rate) there is principal risk that you will want to manage. The 10-Yr US Treasury bond yield is approximately 1.625%, so IF you are being 'sold'/'offered' a yield in excess of that, the credit quality is less than 100% guaranteed.

Of course, this investment will be melded into ALL of your other monies, in order to create the most diversified portfolio that will meet your short-medium and long-term expenses. So, I caution you about segregating buckets of money; they ALL have to work together to help you achieve your objectives.

Good luck and God Speed.

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A variable annuity (or any type) depends on your goals and time commitment. An annuity is a risk management tool, so if you feel uncomfortable about the investment choices being

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Very sorry to hear of your husband's passing.

I usually would not recommend investing IRA assets into a variable annuity.

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Hello,

First of all, I'm sorry for your loss. It's great that your husband had saved and was able to

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