

## Annuity IRAs...a Bad Deal

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Philosopher George Berkeley famously suggested that, “Truth is the cry of all, but the game of the few.” I suspect he was on to something or he wouldn’t have had a college *and* a town named after him. I think of this timeless quote whenever I see an annuity contract lurking within an Individual Retirement Account (IRA).

I have yet to meet a person who, after researching the issues, concluded that it made sense to purchase an annuity contract inside an IRA. Instead, every IRA annuity holder I’ve ever met was either a) “sold” on the benefits of an IRA annuity by what would have to have been a zealous salesperson, or b) did not realize that what he or she had been sold was an IRA annuity. From my informal tally, those in category “b” seem to outnumber those in category “a.”

While a primary feature of an annuity contract is the tax deferral of the earnings that accumulate within the contract, most annuity contracts turn out to be pretty costly to own. In contrast, a plain-jane IRA is already tax-deferred by decree of the U.S. Congress – with no help needed from an expensive annuity contract.

Whereas the the redundancy of wearing a belt and suspenders is self evident, the folly of purchasing a tax-deferred contract within a tax-deferred account might be less so.

And so it is with annuities and IRAs. Just because it’s legal to place an annuity inside an IRA doesn’t mean it makes sense.

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