Dying man with wife and child needs more than investment recommendations

Question:

I have a 56 year old friend that is being forced to retire due to complications from cancer. I have referred him to your books, website, and software. His question to me is his best avenue for current income. He will have some income from [a property] he owns, but would like to use the proceeds from the sale of his professional office to generate a second stream of income.

Obviously he does not have a long time left to live, but does have a wife to look out for. He also has one child still in college for a couple of more years.

Money market funds are at all-time low interest rates. Bonds yields are also low and subject to principle loss when interest rates start to rise. With his main concern being to provide a stream of income for him and his wife, would I be wrong to suggest an immediate annuity, indexed to inflation, for his wife? His accountant has advised he should get an annuity, but I don't know what kind.

Sincerely, [Asked by a professional associate.]

Bud's answer:

Thank you for asking. I can't see the future any better than anyone else, but I'll give you my views of his situation. I'm sorry that he is faced with this problem.

First of all, he should go to a certified financial planner, CFP, that works on a fee only basis. An accountant generally is not a good adviser, nor is a broker. I think that the best CFPs can be found on www.nafpa.org. He needs more than objective investment advice because there are many other issues such as estate planning, insurance planning, living will, reallocating, sale of his properties, etc. He should interview several CFPs before he makes his choice. There are some good questions to ask of candidates in Chapter 10 of *Getting Started in a Financially Secure Retirement* from Amazon.com.

There is a big difference between a variable annuity and an immediate annuity. A variable annuity with a firm other than Vanguard, Fidelity, T. Rowe Price or TIAA-CREF is very likely loaded with high fees and high (and hidden) mutual fund costs. Immediate annuities are subject to the credit worthiness of the insurer, but payments can be compared on sites such as newretirement.com, immediateannuities.com and bankrate.com.

He can roll over an IRA into an annuity of either type, and the annuity can be purchased from a firm other than the one holding the IRA. The new firm will handle all of the paper work. He can also buy them from a taxable account. The tax differences may be important as the CFP can point out depending on his situation. I believe that his surviving wife ultimately will be faced with very high tax rates.

Interest rates are very low right now as you point out. That spills over into the payments offered by immediate annuities. In most situations now, it's better to ease into immediate annuities by buying a small increment each year, but never investing all funds in immediate annuities. At some point, interest rates will have to go up so that the government will have to offer competitive rates as our national debt has to be rolled over by the Chinese and others. I favor the few immediate annuities that are offered with inflation adjustments because I think that in the long term we are going to have high inflation.

And, since none of us really knows what will happen in the future, it's important to have diversified investments.

Bud