Guaranteed Income You Can't Outlive

With a Qualified Longevity Annuity Contract

Secure an income stream that begins later on in retirement

If you have qualified assets that are subject to required minimum distribution (RMD) rules, the Internal Revenue Code (IRC) generally requires that you begin receiving distributions from these assets no later than age 70½. This can make it difficult to plan for income needs later in retirement.

Planning for longevity and its associated expenses, such as increased health care costs, is a concern for many people. Until recently, it has been difficult to plan for these later-life income needs using qualified assets that are subject to RMD rules.

New RMD rules offer more flexibility

In 2014, the Internal Revenue Service (IRS) and the U.S. Department of the Treasury amended RMD rules to provide more flexibility for owners of qualified assets. As a result, these owners can delay receiving distributions on a portion of their assets up until a maximum age of 85 by allocating them into a Qualified Longevity Annuity Contract (QLAC).

What is a QLAC?

A QLAC is a deferred income annuity issued by an insurance company. It allows you defer distributions on a portion of your qualified assets (such as those in a traditional IRA) beyond age 70½, up until a maximum age of 85.[1] Deferred income annuities are often called "longevity" annuities because they provide future income that begins on the date you choose, and may be guaranteed for as long as you live.[2]

Longevity annuities provide a way to transfer longevity, market, and interest rate risks to the insurer. In exchange for your purchase payment, the insurer agrees to pay a specific amount of future income that is guaranteed, regardless of what happens in the financial environment.

A QLAC may help you:

Create a pension-like stream of future income. This can supplement other sources of retirement income, or help offset the loss of Social Security income when one spouse dies.

Transfer risk. The insurer takes on your longevity, interest rate, and market risks. Your future income is guaranteed, no matter how long you live or what happens in the financial environment.

Manage your RMDs. Delaying RMDs on a portion of your assets can help you plan for expenses, like health care costs, that may become a priority later in retirement.

[1] Many deferred income annuity contracts are irrevocable, have no cash surrender value and no provisions for withdrawals.

[2] Guarantees are based on the claims-paying ability of the issuer.

IRS requirements for a QLAC

Not all longevity annuities qualify as QLACs. A deferred income annuity must be designated as a QLAC at the time the contract is purchased; you can't convert an existing deferred income annuity into a QLAC after a contract has been issued.

A QLAC can only be funded with qualified assets from a traditional IRA or with assets from an eligible employer-sponsored qualified plan such as a 401(k), 403(b) or governmental 457(b) plan.[3]

However, many employers do not offer the QLAC option within their qualified plans. Be sure to talk with your financial professional if you have questions about which assets you may use to fund a QLAC.

Purchase payment limits[4]

The maximum amount you can allocate to a QLAC IRA is the **lesser** of:

a. $130,000: This amount includes the sum of all purchase payments previously paid into any contract intended to be a QLAC,[5] **or,**

b. 25% of the aggregate account balances of your IRAs (excluding Roth IRAs, but including the value of any existing QLACs), as of December 31 of the calendar year immediately preceding the calendar year in which the purchase payment is made, less any prior QLAC IRA contributions.

   A separate 25% limit applies to QLACs in retirement plans.

It's important to understand that, as a QLAC owner, you are responsible for ensuring that you meet applicable rules and limitations. As with RMDs, there may be significant tax consequences for failing to comply with these requirements.

Did you know... ?

If your spouse has a non-Roth IRA under his or her own name, he or she can also take advantage of QLAC rules to set aside a portion of those assets into a QLAC contract with the same maximum limits. That's potentially up to $260,000 per household (spouses) that can be allocated to a QLAC strategy.

Get the facts before you decide

The primary reason to choose a QLAC is to secure a future guaranteed income stream, especially if longevity is a concern for you. For the right person, a QLAC can provide a guaranteed income solution at a later age that may also help them manage the tax liability associated with RMDs.

Contact your financial professional for help in determining whether a QLAC may be right for you.

[3] Traditional IRA includes SEP and SIMPLE IRAs. QLACs cannot be purchased with Roth or inherited IRA dollars.

[4] If you exceed QLAC purchase payment limits, you will have until December 31 of the calendar year following the calendar year in which the excess purchase payment was made to remove the excess amount and still have the contract qualify as a QLAC.

[5] The limit for 2019 is $130,000. This limit may be adjusted for inflation in future years.

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