

QUALIFIED LONGEVITY ANNUITY CONTRACTS

In 2014, the Internal Revenue Service facilitated new laws to help address inadequate income levels in the later years of retirement. Qualified Longevity Annuity Contracts (“QLACs”) were created by allowing these insured investment vehicles to receive favorable tax treatment without violating Required Minimum Distribution rules which take effect at age 70½. In short, QLACs are deferred annuities contracted between insurers and individual retirees. They create additional monthly lifetime income at a point in retirement when additional income is typically needed.

From what sources can a QLAC be funded?

- 401(k) plans
- 403(b) plans
- Traditional IRAs
- 457(b) governmental plans

How does a QLAC work?

- Must be funded at the point of retirement from qualified plan assets noted above
- Assets used cannot exceed 25% of the plan balance, or \$130,000 (indexed), whichever is less
- Assets must be used to purchase a deferred lifetime annuity from a reputable insurer
- Payments must start no later than age 85
- Start date must be chosen in advance at retirement

QLACs can supplement Social Security, creating a larger monthly income in the later years of retirement to account for things like general inflation and increasing medical expenses. With life expectancies increasing, and retirements spanning 30 to 40 years for some, a QLAC shifts the risk of outliving your assets to an insurance company. For many, the QLAC approach enables other retirement savings to be used more confidently for travel, entertainment and other big-ticket purchases earlier in retirement.

Many people fear that they will lose out with an annuity purchase if they don't live to their assumed life expectancy. For this reason, many QLACs are designed with “return of premium” features if total payouts fall short of the premium paid, or “cash refund” features, if the contract owner becomes deceased before payments begin.

Please contact ANNUA for more details about Qualified Longevity Annuity Contracts.