

QLAC

Qualified Longevity Annuity Contract

December 2014

What is a QLAC?

The IRS recently revised its rules regarding Longevity Annuities, commonly referred to as Deferred Income Annuities or DIA's. The new rules allow for a DIA to be classified as a Qualified Longevity Annuity Contract or QLAC. This new ruling exempts money held in a QLAC from RMD calculations and defer distributions through age 85.

Q&A

Q: What is a QLAC?

A: QLAC stands for Qualified Longevity Annuity Contract and is always IRA or Qualified Money.

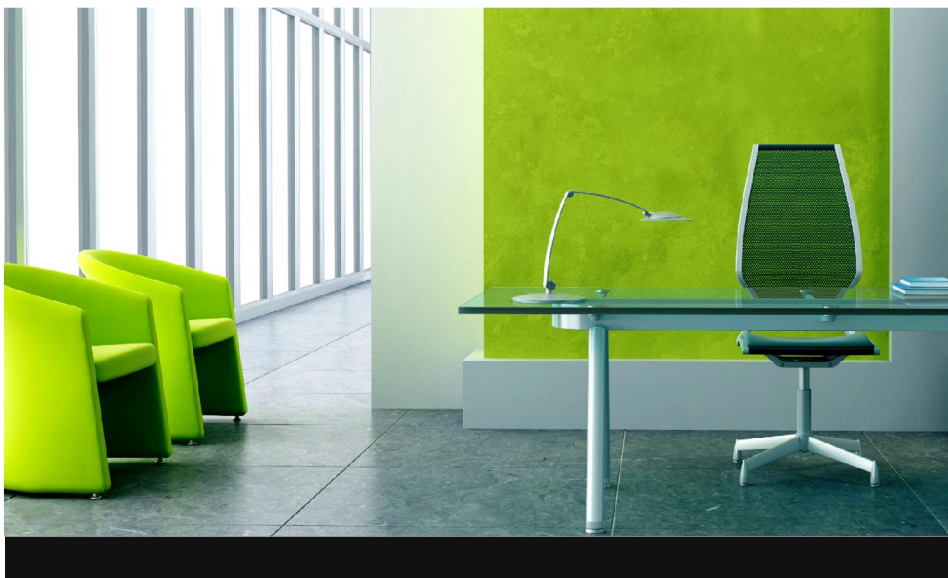
Q: What is a Longevity Annuity or DIA?

A: A longevity annuity is a deferred annuity which guarantees an income stream beginning 13 months or later from the purchase date.

Q: Are all Longevity Annuities QLAC's?

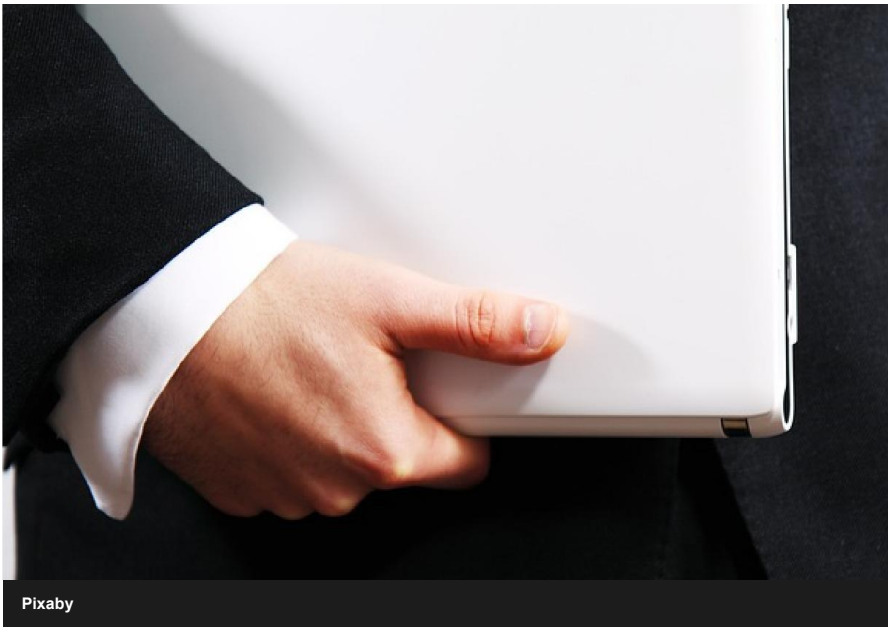
A: No. Longevity Annuities have existed since 2004 and are available for Qualified and Non-qualified funds. A QLAC is an optional designation you can apply to your Longevity Annuity at the time of purchase.

Under the new IRS rules any money held in a QLAC is not included in future RMD calculations. A QLAC could help reduce you client's tax burden.



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Who Offers a QLAC?

As of December 4th, 2014, American General is the only carrier with a QLAC compliant policy. It is approved in most states but still pending approval in both Oregon and Washington. See our website for details.

www.lenzfinancial.com

Help is on the way. New York Life, Lincoln National and Symetra are currently modifying their DIA products to become QLAC friendly and we expect their approval in the near future. Undoubtedly additional companies are going to be developing new products soon.

Your clients and your centers of influence in the tax and legal world are just hearing about QLAC's and this presents an excellent opportunity to reach out to them with a new idea and concept.

How Do I Qualify?

There are certain restrictions an annuity contract must comply with to be considered a QLAC. First, it must be held as a Longevity Annuity, with payments beginning no later than the first day of the month immediately following the client's 85th birthday.

How much money can be held in a QLAC?

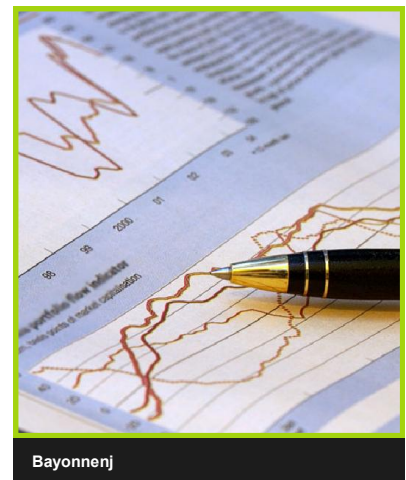
The maximum allowable contribution to a QLAC is the lesser of 25% of the participant's qualified account values with a maximum of \$125,000. For example, if your client holds \$400,000 in their IRA/401(k), up to \$100,000 could be allocated to the QLAC. If your client holds \$500,000 or more in an IRA/401(k) then only \$125,000 could be allocated to the QLAC.

What type of payments are allowed?

A QLAC restricts payment options to lifetime payouts (single or joint) with or without a cash refund option. You may also elect a Cost of Living Adjustment to your payout. While COLA's sound enticing they significantly reduce the income during the early years of the payout. They may make sense for people who can demonstrate longevity in their family and are in good health.

Can additional funds be added?

If the product allows for it, you may add money to a QLAC. The premium limitations still apply to the lesser of 25% of your qualified accounts, or \$125,000 in total. This may prove to be most useful to a QLAC option inside of a 401(k) plan or for someone who is still contributing to their IRA.



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Sweet Spot

QLAC's should be used first for lifetime income needs. They can also be used as a vehicle to lessen the tax burden on Tax Qualified Funds. Used correctly, a QLAC can allow an advisor to help structure their client's retirement portfolio to include both growth and income with a higher degree of certainty.

Growing Pains

The QLAC ruling caught the insurance industry flat-footed and insurers are scrambling to deal with the nuances of the new regulation. As such, it is very possible there will be some hiccups as the IRS, Treasury Department and the annuity carriers themselves sort out the ins and outs of the QLAC.



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You Are Already Part of This

The concept of contributing to a fund which provides a lifetime income stream may sound familiar. The Social Security system is effectively a longevity annuity contract into which you pay while you work, and at retirement you receive a guaranteed lifetime income stream, ending at death.

We all need to plan for longer life expectancies. With pension plans disappearing, many older workers are having to re-think their retirement strategy. Social Security can help, but it is often not enough, especially as people reach their mid 80's and are running out of funds.

QLAC's can be a vital income planning tool, especially when dealing with healthy people who may well live into their 90's and beyond. As an advisor, the ability to guarantee a lifetime income stream for your client will allow you to manage their assets during their life expectancy.

Longevity annuities can be purchased with non-qualified funds as well. While you aren't receiving the same tax benefits as a QLAC, you can still generate (or supplement) lifetime income that begins when you choose.

Annuities

Annuities are the only practical private financial product today that provide guaranteed streams of retirement income for as long as you will live. The financial world can be very volatile place. Think back to 2007 and 2008 when investment and real estate markets plunged. Not everybody can handle 40% swings in their portfolio and many economists have long favored the use of annuities as part of a solid retirement plan.

Let LFG Assist You

Annuities are not created equal. Lenz Financial Group can provide you with over 100 different annuity products, from equity indexed annuities to products which guarantee their rate for up to 10 years. Give us a call and let us help you with a case design that will suit your client's needs.

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Give us a call for more information about our services and products

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