FACTS: The Treasury Department released the final regulations for Qualifying Longevity Annuity Contracts (QLACs).

QLACs will reduce required minimum distributions (RMDs) after age 70½ and provide guaranteed income for life. The value of a QLAC will be excluded from the retirement plan balance used to calculate a client’s RMD.

QLAC’s will be issued by insurance companies. QLAC distributions must begin no later than the first of the month following the attainment of age 85. The limit on the amount that can be allocated to a QLAC is the lesser of (i) 25% of the (aggregate) value of an individual’s IRA and/or qualified retirement plan (401(k) and profit sharing) accounts or (ii) $125,000. The $125,000 limit will be indexed for inflation in increments of $10,000. The calculations for IRA’s and qualified plan accounts differ somewhat.

Subject to the regulations, QLAC’s will offer several pay-out options such as life annuities, spousal and non-spousal beneficiary arrangements. QLAC’s are permitted to have a return of premium (ROP) benefit. A return of premium benefit will provide a death benefit to the IRA or retirement plan account beneficiary if the annuitant dies prior to receiving his/her full benefit pursuant to the QLAC. The ROP is paid to the IRA or the retirement plan account. Under the current rules, QLAC’s cannot be cancelled or surrendered for their cash surrender value. Once purchased, the only ways to get money out of the contract are through annuity payments or the ROP.

Why consider a QLAC?

By excluding the value of the QLAC from the RMD calculation, IRA and retirement plan account owners will reduce otherwise required minimum distributions and thus extend the tax deferral on as much as $125,000 of assets. This should increase the future value and resulting income generated by IRA and retirement plan accounts.