

Examining Qualifying Longevity Annuity Contracts in 5 Easy Steps

What is a QLAC (Qualifying Longevity Annuity Contract)?

A QLAC is a type of fixed income annuity that is held in a retirement account that has special attributes.

- #1 RMD (required minimum distribution) exclusion.** The fair market value of your QLAC is excluded from your RMD calculations. What's the benefit? You can keep a greater portion of your IRA (or other retirement account) intact longer while enhancing the income stream the annuity will provide in the future.
- #2 The distribution deadline.** You don't have to start taking distributions from your QLACs at age 70 1/2, but you can't delay them indefinitely. QLAC distributions must begin no later than the first day of the month after you turn 85.
- #3 Your investment threshold.** You will be limited as to how much of your retirement savings you can invest in a QLAC. The limit will be the lesser of \$125,000 or 25% of your applicable retirement account assets. The 25% limit applies on a per account basis **except for IRAs**, BUT the \$125,000 is a cumulative limit for all QLACs in all retirement accounts. For IRAs, the 25% limit will apply to the prior year-end total of all IRAs (not including Roth IRAs).
- #4 Facts to keep in mind.** QLACs cannot be variable or equity-indexed annuity contracts, though insurance companies may offer contracts with cost-of-living adjustments. QLACs cannot offer any cash surrender value. So if you buy one, just be sure you won't be needing that lump-sum of money anytime soon!
- #5 The death benefit.** QLACs can offer two death benefit options: a life annuity (the rules can vary depending on a number of factors) and a return-of-premium option. These, of course, are the potential death benefit options allowed by the tax code, but that doesn't mean that every QLAC contract will offer all of these options.