FAQ: Understanding QLACs

Q: What is a QLAC?

A: A QLAC is a Qualified Longevity Annuity Contract purchased under an IRA or a qualifying employer-sponsored retirement plan. The funds allocated to QLACs may be excluded from required minimum distributions (RMD) calculations after age 70½.

Q: How does a QLAC work?

A: A QLAC purchased today can provide income beginning on any future date consistent with the contract, but not later than age 85. A QLAC must be a deferred income annuity (DIA), meaning that payments begin more than a year after purchase. The time between your QLAC purchase and the date your income payments begin is referred to as the deferral period. Payments under many QLACs may be deferred for five, ten, twenty or more years.

Q: Why might I want to purchase a QLAC under my IRA?

A: One important challenge is determining how to make your savings last throughout retirement especially given that people are living longer. A QLAC allows you to schedule income to begin at an advanced age, thereby reducing RMDs. Knowing that you will have this deferred income can reduce your reliance on the remainder of your portfolio, allowing you to invest or spend with more confidence during your earlier active years of retirement.

As an example, if you retire at age 65 and purchase a QLAC to provide income beginning at age 85, you may be more comfortable withdrawing from your retirement savings over the next 20 years until your 85th birthday when your QLAC automatically begins to pay income for the rest of your life.

Q: How does the length of the deferral period affect the cost of the QLAC?

A: The longer you wait to begin income payments, the higher your income payments can be for the same amount of money. The difference in cost is based on life expectancy and the length of time between the date of purchase and the date payments begin. Remember that with a QLAC, as with any deferred income annuity, your income can be higher than with other financial products because your premium is permanently converted to a guaranteed income stream that can last for your lifetime.

Q: Is there a minimum purchase age restriction?

A: No.

Q: What is the maximum QLAC purchase age for annuitant and joint annuitant?

A: With the AIG contract, annuitants cannot be older than 83, and joint annuitants cannot be older than 90.

Q: Is there a limit to how much money I can use to purchase an IRA QLAC?

A: The amount of funds that you can allocate to a QLAC is limited by federal tax rules.[1] Premiums are limited to the lesser of $125,000 (lifetime) or 25% of your qualified account values. The dollar limit applies across all plans and IRAs collectively, while the percentage limit applies to IRAs on an aggregated basis. If your QLAC purchases exceed premium limits, IRS penalties may apply.

Q: What account value is the 25% IRA limit based on?

A: The 25% limit is based on your aggregated traditional IRA account values as of the prior December 31st, less premiums previously paid to purchase other IRA QLACs.

Q: Can funds in an IRA that has begun distributions due to existing RMD rules (e.g., owner is over age 70½) be used to purchase a QLAC?

A: Yes. However, you should consult with your tax advisor to determine if a distribution must be made to satisfy RMD requirements for the calendar year in which the QLAC is being purchased.

Q: Are Roth IRAs or inherited IRAs eligible to be classified as a QLAC?

A: No.

Q: If I die before my selected payment start date, will my heirs lose the premium I paid for the QLAC?

A: Not necessarily. You can select from two pre-commencement death benefit options. The return-of-premium (ROP) option allows the premium to be paid to your beneficiary(ies) in the event you die prior to the income start date. Selecting this option increases the cost of the QLAC and decreases the amount of the deferred income payment. The second option – no death benefit – provides higher income payments. However, if you die prior to the income start date, no death benefit or income payments will ever be paid and your QLAC will terminate.

Q: What payment types can be selected with a QLAC?

A: Payout options are limited to single or joint life only, and single or joint life with cash refund.

Q: Are annual payment increase options available?

A: Yes, four increase options are available: CPI-U Index, 1% to 5% simple, compounded or flat dollar.

Q: Can my QLAC provide for annuity payments to my spouse if I die first, after income payments begin?

A: Yes. The American Pathway® Deferred Income Annuity offers joint and survivor, and joint and contingent payment options with the requirement that the joint annuitant is a spouse.

Q: If the owner dies prior to the income start date on a joint life QLAC, when must the joint annuitant start income payments?

A: The spousal joint annuitant must start income no later than the original income start date.

Q: If the owner dies before income payments begin under the QLAC and a death benefit is payable to a beneficiary, is that death benefit eligible to be rolled over to another plan or to an IRA?

A: If the owner's death occurs before the owner's required beginning date (RBD)[2], the proceeds should be eligible for rollover. If the owner's death occurs after the RBD, then the death benefit payment is treated as an RMD and is not eligible for rollover. Similarly, if the surviving spouse's death is after the RBD for the surviving spouse, then the death benefit payment is treated as an RMD and not eligible for rollover.

Q: Can I change the income start date of a QLAC?

A: If a cash refund payment type is selected, the American Pathway Deferred Income Annuity allows you to accelerate or defer the first payment date within five years of the original income start date as long as it complies with the minimum and maximum deferral periods of your contract, any plan requirements and QLAC regulations. This feature may be elected once during the life of the annuity contract.

Q: Can a QLAC become a non-QLAC contract by changing the income start date to a date before the owner is 70½?

A: No. A QLAC that provides the option to change the income start date does not disqualify the contract from being a QLAC even if the owner exercises the option and begins receiving income prior to 70½.

Q: Is commutation permitted with QLAC contracts?

A: No.

[1] Neither the company nor any of its agents or employees provides legal or tax advice, or calculates maximum premium limits for QLAC purposes. The company recommends you consult with a competent tax advisor regarding your individual circumstances.

[2] The required beginning date under a plan or an IRA is the year in which the owner reaches 70½ years of age, or by April 1 of the following year if the owner elects to delay the first payment.

Tax-qualified contracts such as IRAs, 401(k)s, etc., are tax deferred regardless of whether or not they are funded with an annuity. If you are considering funding a tax-qualified retirement plan with an annuity, you should know that an annuity does not provide any additional tax-deferred treatment of earnings beyond the treatment by the tax-qualified retirement plan itself. However, annuities do provide other features and benefits such as income options.

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