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Qualified Longevity Annuity Contract (QLAC)

The Secure Act of 2022 now allows for a reduced Required Minimum Distribution (RMD) by employing **A Qualified Longevity Annuity Contract** (QLAC) which is a deferred annuity funded by transferring funds from a qualified retirement plan or an individual retirement account (IRA) in lieu of an RMD.

A QLAC in effect allows for the transferring of funds that otherwise would be required to be distributed from a pension or IRA as an RMD to the QLAC which then defers that amount until the retiree reaches age 85. Payments from the QLAC must begin at age 85 through an annuity. As long as the QLAC complies with Internal Revenue Service (IRS) requirements, it is exempt from required minimum distribution (RMD) rules until the owner reaches age 85.

KEY TAKEAWAYS

- A QLAC is a retirement strategy in which a portion of required minimum distributions (RMDs) are deferred.
- The SECURE 2.0 Act of 2022 allows individuals to move $200,000 from a qualified retirement plan or IRA to a QLAC.
- A QLAC allows taxes to be deferred that are normally required by RMDs.

A QLAC is an investment vehicle that allows funds in a qualified retirement plan, such as a 401(k), a 403(b), or an IRA, to be converted into an annuity.

An annuity is a contract purchased through an insurance company in which the buyer pays a lump sum or a series of premiums.

The insurance company pays the annuitant beginning on a predetermined start date when the retiree reaches age 85.

The **SECURE 2.0 Act of 2022** allows individuals to move up to $200,000 to a qualified longevity annuity contract.

The $200,000 limit is annually adjusted for inflation, and the legislation removed the rule capping QLAC premiums at 25% of the participant's total plan assets.2

A QLAC allows distributions to be delayed until a predetermined payout date but no later than the person's 85th birthday.

A QLAC also allows a spouse or other party to be a joint annuitant where both named individuals are covered with the same conditions regardless of how long they live.

Qualified Longevity Annuity Contracts and Taxes

QLACs have the benefit of reducing a retiree's RMD, which IRAs and qualified retirement plans require.

Limiting RMDs can help reducing immediate income taxes, with a tax benefit and reduced required Medicare premiums based on income.

The annual distribution is based on the account's value at the end of the preceding year.

Transferring money to a QLAC reduces the annual RMD requirements for all retirement accounts held by the retiree.
