

Frequently Asked Questions About QLACs and IRAs

If you have an IRA or other qualified retirement plans and are over the age of 50, you should know about a planning opportunity using something called a Qualified Longevity Annuity Contract, or QLAC.

Here are some of the most common questions and answers our clients have asked us about QLACs. If a QLAC seems like it may be worth considering for your retirement plans, please call Colin Meeks, CERTIFIED FINANCIAL PLANNER™, at 410-663-0700

You may notice that some of the questions appear more than once. We want to be sure we cover what you need to know.

Q. What is a QLAC?

QLAC stands for Qualified Longevity Annuity Contract. A QLAC is a new form of longevity annuity. A longevity annuity is an annuity that you buy today that begins making payments to you later in your life. In the case of a QLAC, income payments can start as late as age 85, but can also start earlier if chosen. The difference between a longevity annuity and a QLAC is that recent IRS rules give QLACs more favorable tax treatment when purchased in an IRA.

You can now buy a QLAC with pre-tax money from your IRA or 401k, and you can hold them without taking Required Minimum Distributions (RMD) until age 85. In this scenario, A QLAC can reduce your current income taxes on your IRA required minimum distribution because you are removing part of your IRA from the RMD requirements.

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Q. What is my RMD?

Your Required Minimum Distribution (RMD) is the amount of money you are required to withdraw each year from your IRA and other retirement accounts once you reach age 70 ½ . The IRS makes you take this money out of your retirement accounts so it can finally tax that money. Up to age 70 ½ you can let your IRA grow tax-deferred. Beginning at age 70 ½ these annual required withdrawals are included in your taxable income.

In July, 2014, the Treasury Department relaxed the RMD rules a bit, encouraging you to plan for a potentially longer retirement. The new rules allow you to buy a QLAC with a portion of your IRA and not include the value of that annuity in your RMD calculations from age 70 ½ up to age 85.

Q. What is a longevity annuity?

A longevity annuity is a contract you buy from an insurance company. It provides you with monthly income payments that begin at a future date. When you buy the annuity, you set the start date for future payments and the amounts of the payments are guaranteed* by the insurer. The insurance company calculates the one-time payment required to produce your desired future monthly income. You can also have the insurance company calculate what your one-time payment will generate. So you can plan in 2 separate ways - solve for a future income, or just see how much a chunk of money will generate (ie, how much income will I get if I deposit \$50,000 or how much do I need to deposit to generate \$1000/ per month at age 80)

*Guarantees are subject to the claims-paying ability and financial strength of the annuity issuer

Q. What does a QLAC have that a regular longevity annuity doesn't?

While a QLAC is built upon a regular longevity annuity which has been around for a long time, the new QLAC rules have only been in place since mid-2014. To qualify for the more favorable tax treatment under these new rules, the annuity must be labeled a QLAC by the insurance company. So just buying a longevity annuity is not enough to meet the new requirements. Insurance companies are now offering QLACs that meet the IRS rules. Since companies are always updating offerings and products change frequently its best to call our office at 410-663-0700 for an up to date list of what's available.

Q. What specific benefits do a QLAC offer?

The main impact of the recent QLAC rules is that you can defer payments on your longevity annuity held in your IRA until age 85 and still meet the required minimum distribution (RMD) rules, even though you haven't actually started income payments from the annuity contract!

In other words, what you put into your QLAC is not part of your RMD calculations.

Previously, you would have been required to include the value of your longevity annuity for RMD calculations starting at age 70 ½. This may have forced you to start taking income from the annuity before you wanted or needed to, and to pay the IRS their taxes.

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Q. Are there any restrictions on using a QLAC in my IRA?

Yes, there are certain restrictions:

1. You can only invest the **LESSER OF 25%** of your Traditional IRA and 401k retirement account values or **\$125,000** (whichever is smaller). The percentage limit is calculated by looking at all of your qualified retirement plans collectively (IRAs, 401ks, etc). So if you have a few IRAs and they total \$300,000, then the maximum you could put in a QLAC would be \$75,000 (25% of \$300,000).
2. You can only defer payments up to age 85. At 85 you must start income from your QLAC IRA (and pay taxes on those withdrawals)
3. You can't invest in a variable annuity or an index annuity. There is only one specific type of annuity that you can use as a QLAC (see *What is a longevity annuity* above)
4. Income payment options are limited to your life and/or spousal life. Many other annuity payment options are not available with QLACs
5. A commutation or cash surrender option is not allowed. This is a very important consideration. A QLAC strategy should only be used for future income purposes.
6. A QLAC may have additional features including a rider for inflation adjustment, a survivor benefit (as long as the survivor payments are not greater than those made to you as the original owner) and a return of premium death benefit, meaning your heirs could receive payment equal to the annuity premiums you paid minus any annuity payouts made to you.

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Q. Why should I consider a QLAC?

Many retirees find that this strategy removes some of the fear of outliving their money. It may provide comfort and enable you to spend more money on such things as travel, a vacation home or hobbies in early retirement because of the guaranteed* income that a QLAC provides in later years.

A QLAC, along with Social Security and other sources of retirement income may provide that “base” income in later years that allows you to spend a little more freely in early retirement.

Q. What are the benefits or advantages of a QLAC?

A QLAC allows you to reduce your RMDs and defer withdrawals from your IRA to as late as age 85. Reducing your RMD withdrawals for even a few years could help you significantly extend your retirement savings.

A QLAC is designed to provide you with income when you get to your late 70s or 80s (a QLAC can start paying income as late as age 85). Because of the potentially long period of time between when you buy the QLAC and the income start date, the pricing may be very attractive. The amount you would receive in payments is very significant compared to the initial premium.

Owning a QLAC may allow you to spend in your early retirement because you know that you have other resources in place for your later years, and QLAC income is guaranteed* for life. It also offers you a way to plan for additional expenses or care you might need for your later years.

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In addition, QLAC payments can be guaranteed to continue as long as you or your spouse are living, meaning neither of you will outlive your money. The amount of the future payments will depend on a number of factors, including the amount of your premium, your age, your life expectancy, and the time when payments are set to begin.

Lastly, another advantage is knowing that you have future income from your QLAC. There is no exposure to stock market risk. There is no exposure to bond market risk. Your income is guaranteed, in writing, and contractually guaranteed* by the insurance company. This advantage may allow you to invest other retirement assets more aggressively and/or plan for certain assets passing to your heirs.

*Guarantees are subject to the claims-paying ability and financial strength of the annuity issuer.

Q. What are the drawbacks or disadvantages of a QLAC?

A QLAC has some drawbacks. It isn't as flexible as other assets that can be easily moved among asset classes if your circumstances or market conditions change. Keep in mind that a QLAC is an insurance contract that is to be used to guarantee you a lifetime income. It is not an investment vehicle. Once you make a deposit, you cannot surrender the contract (unless done within the 30 day free-look period). That is why doing a full retirement income plan with a qualified financial professional is essential to determine if a QLAC is right for you.

Q. Who should considering buying a QLAC?

A QLAC may be a good fit for many investors in different circumstances, so there is no one ideal buyer. A QLAC will probably work best if you have enough retirement money to diversify a fraction (no more than 10% to

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20%) of your total portfolio to a QLAC. This seems to work best as it keeps a large portion of your retirement assets in reach, while using a smaller portion for the advantages that a QLAC provides. A QLAC is may also more advantageous if you have a family history of longevity.

Q. How does a QLAC work?

A QLAC requires a single lump sum payment upfront. You elect the annuity start date and you know what your annuity payments will be when you agree to the contract. There are no ongoing fees. When you reach the annuity start date, you will begin receiving payments on the schedule you elected, usually monthly. For a personalized proposal from several insurance carriers, call 410-663-0700.

Q. What is the latest I can wait to start taking payments?

Payments must start no later than the first day of the month after the month in which you turn 85.

Q. Can I have more than one QLAC or longevity income annuity?

Yes. There are advantages to splitting QLACs or longevity annuities with different insurance companies and different income start dates or features. This can be a way to have income phase in at various start points or to position yourself to take advantage of us interest rate increases. This is a very popular strategy called “Laddering” and is worth looking at.

Q. How do I buy a QLAC?

Since QLACs have not been around very long, insurance companies are just rolling out products, and a contract must be designed and designated as a

QLAC to qualify. It's important to make sure your purchase meets all the QLAC requirements so you get the favorable IRS tax treatment. For an updated list of carriers, products, and a proposal, call us at 410-663-0700.

Q. What fees are there on QLACs?

There are no upfront or ongoing fees on QLACs. All costs and fees are priced directly into the annuity contracts, so the income amount you are quoted is what you will receive. We receive a one-time commission of 1-3% of your deposit (depending on the company and product), but that is also priced into the contract.

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

No. RMDs do not apply to Roth IRAs and inherited IRAs cannot be treated as QLACs.

Q. What specific account types can hold QLACs?

They can be bought inside your IRA, 401(k), 403(b) and governmental 457(b) plan.

Q. Can money in an IRA that has begun distribution due to RMD rules be exchanged into a QLAC?

Yes. However, you should consult with a tax advisor to determine if a distribution must be made in order to satisfy RMD requirements for the calendar year of the purchase of the QLAC.

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A decision to buy a QLAC in your IRA should be a well thought out one based on a thorough analysis of your entire retirement income plan. This should include a review of your Social Security claiming options, pensions (if available), retirement plan distributions, and income from other investments.

For a Complete Planning Review to determine if a QLAC is right for you, please call 410-663-0700 or go to www.MarylandFinancialAdvocates.com and click on the “schedule a meeting” icon on the first page.

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from various sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. You should discuss any tax or legal matters with the appropriate professional.

Fixed annuities are long term investment vehicles designed for retirement purposes. Withdrawals made prior to age 59 ½ are subject to a 10% IRS penalty and surrender charges may apply. All guarantees are subject to the claims paying ability of the issuing company. Gains from tax deferred investments are taxed as ordinary income upon withdrawal.

QLAC Quote Request Sheet

In order to give you an accurate idea of how a Qualified Longevity Annuity Contract may fit into your overall retirement income plan, please fill in the information below.

My name is _____

My date of birth is ____/____/____

I am - male / female (circle one)

I am - single / married (circle one)

Return this form by.....
Fax 410-663-6700
Email Colin.Meeks@LPL.com
Mail Colin Meeks
9621 Harford Road, 1st Floor
Baltimore, MD 21234

My total retirement account assets are \$_____

(QLACs have a maximum amount you can deposit, we use this number to figure out your maximum. Use just your retirement assets – IRAs, 401ks, 403bs, etc. Do not combine this number with your spouses if you are married. If you want a quote for your spouse fill in a separate sheet for them)

I would like to see a quote for a one-time deposit of \$_____

I would like my guaranteed monthly payments to start at age _____
(age 85 is the maximum)

I consider my health to be - below average / average / above average (circle one)

My email address is _____

My phone number is (____) _____ - _____

My mailing address is _____

We will prepare your quotes and deliver them by mail. We will email you and let you know when they leave our office. Keep in mind that there is no such thing as an "instant quote" or "automated quote" that we feel is accurate. We personally review each quote request, prepare a spreadsheet of the 5-7 companies that offer QLACs, and present you with your quote. You should call us when you get the quotes so that we can review them and help you decide if a QLAC is right for you.

In some situations, we may contact you for additional information. In some cases, we may contact you and advise you to not consider a QLAC. If you have any questions or would like help completing this form, please call us at 410-663-0700.

The QLAC Shopper's Guide

Use this to help you decide if a Qualified Longevity Annuity Contract is worth considering for your lifetime retirement income plan.

The Qualified Longevity Annuity Contract (QLAC) allows you to use a portion of the savings in your qualified retirement accounts and turn it into a guaranteed* lifetime paycheck. Additionally, a QLAC carries tax benefits and allows you to defer a portion of the taxes you would normally pay on the distribution from your retirement accounts up to the age of 85. Allocating a portion of your savings in retirement accounts to a QLAC today provides you with a guaranteed retirement income strategy later (*Guarantees are based on the claims paying ability of the issuing insurance company)

But.....Not everyone is a good fit for a QLAC. And a QLAC is not a good fit for everyone. Here are some very general guidelines to help get the conversation started.

A QLAC may be right for you if.....

- You have \$250,000 - \$5,000,000 in retirement savings. (there are special cases where a QLAC may be right for you if you are above or below these limits, so contact us for advice on your situation)
- You are in average or above average health
- You are over the age of 45, but not too far into retirement (around age 70)
- You are seeking greater certainty offered by an insurance product (as opposed to an investment product)
- Your Social Security and/or your pension do not cover your regular monthly living expenses

A QLAC may not be right for you if.....

- You have less than \$250,000 or more than \$5,000,000 in retirement savings (again, there are special cases, so please contact us for personalized advice)
- You are in below average health and/or have a family history of short life spans.
- You are seeking higher risk and return typically offered by an investment product
- Your Social Security and/or your pension already cover your regular monthly living expenses

Remember that these are initial guidelines and everyone's situation is unique. As you consider whether a QLAC is right for you, don't hesitate to reach out to us for some guidance. We specialize in retirement income planning and may have some insight that can help.

As with any investment or insurance product, keep these basic rules in mind when shopping:

- Not everyone is a fit
- Don't buy the first product you see or hear about – do your research
- Go by your timeline for buying a product, not the person selling it to you (ie, don't get pressured into making a decision)
- Make sure you are comparing apples-to-apples
- Make sure whoever is recommending a product to you has YOUR best interests in mind first and foremost (we recommend a fiduciary relationship)
- Ratings of the company matter

For a quote and an income analysis to see how a QLAC may fit into your retirement income plan, please call us at (410) 663-0700.

A decision to buy a QLAC in your IRA should be a well thought out one based on a thorough analysis of your entire retirement income plan. This should include a review of your Social Security claiming options, pensions (if available), retirement plan distributions, and income from other investments.

For a Complete Planning Review to determine if a QLAC is right for you, please call 410-663-0700 or go to www.MarylandFinancialAdvocates.com

This information is general in nature and may be subject to change. LPL representatives are not authorized to give legal, tax or accounting advice. Applicable laws and regulations are complex and subject to change. For advice concerning your situation, consult your professional attorney, tax advisor or accountant.

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I am - single / married (circle one)

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(age 85 is the maximum)

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My email address is _____

My phone number is (____) _____ - _____

My mailing address is _____

We will prepare your quotes and deliver them by mail. We will email you and let you know when they leave our office. Keep in mind that there is no such thing as an "instant quote" or "automated quote" that we feel is accurate. We personally review each quote request, prepare a spreadsheet of the 5-7 companies that offer QLACs, and present you with your quote. You should call us when you get the quotes so that we can review them and help you decide if a QLAC is right for you.

In some situations, we may contact you for additional information. In some cases, we may contact you and advise you to not consider a QLAC. If you have any questions or would like help completing this form, please call us at 410-663-0700.