

How To Reduce Required Minimum Distributions (and taxes) On Your Retirement Accounts Using A Qualified Longevity Annuity Contract (QLAC)

In July of 2014, the IRS approved the purchase of Qualified Longevity Annuity Contracts (QLACs) in Individual Retirement Accounts (IRAs). That's a lot of letters and acronyms, so the rest of this report will help you make sense of what this means and how it may be helpful to you.

With a QLAC you can delay taking required minimum distributions on a portion of your tax qualified retirement accounts (IRA, 401k, 403b, etc.) for up to 15 years, to as late as age 85.

By delaying RMDs on a portion of your retirement accounts, you may gain a significant tax advantage. You may also be able to generate more stable and predictable income in your later years without having to take significant investment risk (ie, stock market risk) and pay high investment fees.

Please be sure to read this entire report to the end. It will help you determine if this planning opportunity is right for you.

Unlocking the Potential Advantages of a QLAC in your Retirement Plan

What exactly is a QLAC? I'm glad you asked. A QLAC is a new type of longevity annuity (also known as deferred income annuity). You set up a QLAC by transferring money from any of your existing IRA, 401k, or other qualified retirement accounts to an insurance company annuity. Your QLAC is designed to pay you a steady and guaranteed* monthly income later in life.

The annuity that makes up a QLAC isn't a new idea. In fact, longevity annuities have been around for years. But the way the IRS now treats a longevity annuity within a tax-deferred retirement account, such as an IRA or 401(k), has changed. And that's where it may benefit you to explore this planning opportunity.

***Guarantees are based on the claims paying ability of the issuing insurance company**

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How Does a QLAC Work?

You pay a lump sum premium to an insurance company and then at a future date, which you specify today, you begin receiving a guaranteed monthly payment that continues for as long as you are alive. If you are married, you can have the QLAC pay a guaranteed monthly payment for as long as you and your spouse are alive.

An attractive feature of the QLAC is that the insurance company tells you exactly how much income you will begin receiving in the future when you buy it. So if you buy a QLAC today, and you want it to start income payments in 10 years, you know exactly what those monthly payments will be right now.

There is no stock market risk. There is no interest rate risk. The future income amount that's quoted is guaranteed. It's in writing and it's in the annuity contract that you receive from the insurance company.

So if the stock market crashes, interest rates go down, or the economy is in a recession, the income that you will receive from your QLAC will still be exactly what your contract says it will be.

With a QLAC you get income that starts in your later years (age 80-85 is when most retirees start their QLAC income) at an attractive and known price when you make your deposit.

QLACs are more transparent than most annuities. They require only one upfront payment, have no annual fees, and provide a guaranteed monthly income for life.

I believe that if you own a QLAC in your IRA, you may be able to increase the amount you withdraw from your savings in the early years of retirement. This is due to the fact that a QLAC strives to provide the reassurance of a pre-determined, predictable and guaranteed monthly

How Can A QLAC Reduce My Required Minimum Distributions on My IRA?

In July, 2014, the Treasury Department relaxed the RMD rules a bit, reflecting the government's desire to encourage you to prepare financially for your retirement. The new rules allow you to buy a QLAC with your IRA money and not worry about having to include the value of that IRA annuity in your RMD calculations from age 70-1/2 up to age 85.

How Does This Reduce The Current Income Taxes I Have To Pay On My IRA?

Let's assume you have a traditional IRA and you invested the maximum allowable amount of \$125,000 into a QLAC. When you reach age 70 ½ you will have to take required minimum distributions (RMDs) from the entire combined balances of all your IRAs. But since you now have a portion of your IRA in a QLAC, you have removed that \$125,000 amount from your RMD calculation.

At age 70 ½ you would have had to withdraw around \$4600 on the \$125,000 if it was left in a regular (non-QLAC) IRA. This would trigger both federal and state income taxes on the withdrawal.

If you are in the 25% federal tax bracket and 7% state tax bracket (for example), you would owe around \$1470 in taxes.

With a QLAC, you're not forced to withdraw an RMD at age 70 ½ , nor in any of the subsequent years, all the way up to age 85. So the tax savings accrued from not having to withdraw RMDs for up to 15 years can be significant.

Remember, had you not invested in a QLAC, you would have to remove RMDs from what the IRS sees as a regular IRA.

Of course, an exact calculation of your tax savings would depend on a variety of factors, but you can see the overall advantage in this example. In short, by investing in a QLAC you essentially postpone paying income tax on some of your IRA money. This is a hypothetical example and your results may vary.

Important – Please Read

Because QLACs are a relatively new product, only a few insurance companies presently offer contracts that meet the new IRS requirements. It's important to know that an annuity must be designed and labeled as a QLAC to qualify for new IRS treatment.

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Should I Consider A QLAC For My IRA

QLACs, like any investment, should be evaluated and carefully considered before making a final buying decision. You should consult with a qualified financial advisor and do a complete analysis of how a QLAC may benefit your financial situation.

A main goal of using a QLAC in an IRA is to create a guaranteed future stream of income while reducing current required minimum distributions and income taxes.

For an independent analysis and comparison, please call Colin Meeks at 410-663-0700.

Top 9 Reasons To Consider A QLAC

Here are 9 compelling reasons to get more info on how a QLAC may help you

1. Reduce current taxes on your IRA
2. Decrease Required Minimum Distributions on a portion of your IRA
3. Plan future income
4. Protect a portion of your IRA from market downturns
5. No annual fees
6. Deferred distributions - up to age 85
7. Benefits to spouses and other beneficiaries
8. Assist strategies for leaving assets to heirs
9. Potential for inflation protected income.

Because of the favorable tax treatment due to the recent IRS rulings, you may hear a lot more about QLACs as you plan for your retirement income. A good way to get started is to seek qualified professional help. If you would like our help, please call Colin Meeks, CERTIFIED FINANCIAL PLANNER™, at 410-663-0700.

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.

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.

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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.