Government's decision expands retirement flexibility.

Key Message: A QLAC can be an important tool for retirement planning.

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It's not often the federal government makes a decision that nearly everyone is happy with, but that's what happened with a regulation that was finalized by the U.S. Treasury Department. Changes to the regulations under Internal Revenue Code section 401(a)(9) allow the ability to defer the distribution of qualifying assets. This is possible under the regulation beyond age 70 ½ through the purchase of a Qualifying Longevity Annuity Contract (QLAC).

Generally, the new rules provide an exception to Required Minimum Distributions (RMDs) by allowing a QLAC to start making payments as late as age 85. This means people can defer paying taxes on money that they may not need in early retirement. This is big news for those people who have been forced to take RMDs.

A QLAC can provide more flexibility for your retirement planning by allowing you to better match your retirement income to your needs. This allows the ability to control when taxes can be paid on your qualified assets. A QLAC will also ensure that you will not outlive your money, because as an annuity it provides guaranteed income for life.

There are some limitations to QLACs that you should know. Most importantly, there is a cap on how much of your qualified money you can put into a QLAC. Contributions are limited to the lesser of $125,000 or 25% of the owner's qualified account balances, less previous QLAC contributions. The 25% limit applies on a plan by plan basis and to IRAs on an aggregate basis. Also, QLACs can only be established through a deferred income annuity with no liquidity features.

Other important rules you should be aware of include:

- Eligible accounts include 401(a), 401(k), 403(b), governmental 457(b) or IRA,
- Income payments must begin no later than the first day of the month following the owner's attained age 85.

- The contract must state from inception that it is intended to be a QLAC.
- Once income starts, the payments must satisfy RMD rules.
- The contract cannot have any cash surrender value or commutation benefit

A QLAC can be a powerful tool for those who want more control of how and when money is removed from their qualified retirement accounts. With people living longer than ever, the government has taken an important step in allowing people more flexibility regarding their retirement assets. This is an opportunity that should be a serious consideration for many people near or in retirement. Contact your tax/legal advisor for implications to your specific situation.

This educational third-party article is being provided as a courtesy by Joshua Ruggles. For additional information on the information or topic discussed, please contact Joshua Ruggles at Daus Financial Group 269-321-7472 or josh@dausfinancial.com.

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