AIG Offers First Qualified Longevity Annuity Contract

By Kerry Pechter *Thu, Nov 13, 2014*

"[The qualified longevity annuity contract] will take a while to get going," said Stan Haithcock, of Stantheannuityman.com, "but once people realize that it lets them reduce their RMDs, and that it will be good for their spouses, I think they will flock to it."

Asserting that it is "committed to be a leader in QLAC sales," AIG is now issuing what appears to be the first-to-market qualified longevity annuity contract. A QLAC is a deferred income annuity that Americans can buy with up to $125,000 in tax-deferred savings and whose premiums they can exclude from required minimum distribution (RMD) calculations until as late as age 85.

The potential demand for such products, which were impracticable before a U.S. Treasury announcement last July 2, has been a topic of vigorous debate within advisor, annuity, and public policy circles for months. Longevity annuities were the subject of a lively two-hour **colloquium** at the Brookings Institution in Washington, D.C., last week.

The fact that QLACs offer retirees the possibility of substantially delaying a portion of their RMDs, and thereby delaying a portion of their income taxes, on up to $125,000 in qualified savings, has fueled speculation that longevity annuities may now have enhanced appeal.

Besides AIG, other insurers are expected to offer QLACs. Lincoln Financial Group told RIJ this week that it will be requesting regulatory approval for a QLAC version of its Lincoln Deferred Income Solutions annuity. Lincoln has just announced changes to that product, shortening the minimum deferral period to 13 months from 24 months and allowing multiple premiums.

"Our current product cannot be used as a QLAC, but we will be filing endorsements to allow this status on our DIA contracts," said Jay Russo, a Lincoln Financial spokesperson.

"[The QLAC] will take a while to get going," said Stan Haithcock, creator of the **Stantheannuityman.com** website, "but once people realize that it lets them reduce their RMDs, and that it will be good for their spouses, I think they will flock to it."

There has been chatter among advisors about the value of QLACs, with some demurring that the $125,000 limit on QLAC premiums makes the value of the enhanced tax deferral too small—or at least not large enough to overcome their clients' objections to the product's inherent illiquidity and low average internal rate of return, relative to risky assets.

But Haithcock believes that RMDs are so widely disliked that any chance to reduce them will prove irresistible for many middle-class retirees. "It will be more of an emotional buy than the industry currently recognizes," he told *RIJ*.

AIG's QLAC, issued by American General Life Insurance Co., is a straightforward version of the product type. According to a **product snapshot** of the company's American Pathway DIA, the QLAC version of product can be purchased with a minimum premium of $10,000 in tax-deferred savings. All versions of the product feature optional annual inflation adjustments of 1% to 5%, and a lump sum death benefit equal to the purchase premium. The minimum deferral period is five years. There are single, joint and survivor, and joint and contingent payout options.

If set up as a QLAC, as distinct from a conventional DIA, the tax-deferred purchase premium can be no more than $125,000 or 25% of the contract owner's qualified savings. The premium is excluded from the contract owner's RMD calculations until payments begin, but no later than a month after the contract owner reaches age 85.

A non-QLAC DIA can be purchased with much larger amounts of tax-deferred savings. In that case, however, contract owners must begin receiving taxable payments by age 70½. AIG has issued a **white paper** on QLACs for those who are unfamiliar with them.

Haithcock has calculated that someone with $500,000 in IRA savings would ordinarily have an initial required minimum distribution of $18,250. If he or she used 25% of the $500,000, or $125,000, to buy a QLAC, the initial RMD would drop to $13,687.50, or $4,562.50 less. If the individual's tax bracket was 20%, the immediate tax bill would drop by about $912.

QLACs were created by the U.S. Treasury Department to encourage the use of deferred income annuities, which are seen by Obama administration policymakers as one way to help increase the retirement security of Americans. Existing tax law, which requires distributions from tax-deferred retirement accounts to begin no later than the year after the year in which a taxpayer reaches age 70½, was perceived as an impediment to the sale of qualified DIAs. DIA prices become more attractive when payouts are deferred until age 80 or 85.

By providing an exemption of up to $125,000 (or 25% of qualified savings, if less) from RMDs until age 85, the QLAC regulation thus removes a major stumbling block to the purchase of DIAs. On October 23, the U.S. Treasury, the IRS and the Department of Labor released notices that QLACs can also be offered to 401(k) plan participants as investment options inside target date funds or managed accounts.