MetLife launches QLAC as plan distribution option

By Kerry Pechter *Thu, May 28, 2015*

Participants in plans with MetLife group annuity contracts can put 25% of their qualified savings (up to $125,000) into this new deferred income product, whose premium can be excluded from RMD calculations until age 85. A MetLife QLAC for rollover IRAs will come later.

MetLife, which pioneered a longevity insurance contract that was slightly ahead of its time back in 2004, broke new ground again this week by offering a qualified longevity annuity contract (QLAC) as a distribution option for participants in defined contribution plans.

The product, called MetLife Retirement Income Insurance, will be offered to participants in as many as 10,000 U.S. workplace retirement plans that have group annuity contracts with MetLife.

"The product we launched today is not meant to be purchased over time. You could buy a few sleeves over time if you like. But it's meant to be purchased with a single premium at the point of retirement," Roberta Rafaloff, vice president, Institutional Income Annuities, in MetLife's Corporate Benefit Funding group, told *RIJ* this week.

The product, unlike retail annuities, would have unisex pricing, which means that men and women of the same age would receive the same payout rates. According to MetLife, the purchase premium would move from a 401(k) to the MetLife general account without requiring a rollover. Rafaloff said that, all else being equal, the product would cost less than a comparable retail product because of the institutional pricing. Later this year, MetLife intends to offer a QLAC for the rollover market. That product will be available on the Hueler Income Solutions platform, and will not have unisex pricing.

QLACs are deferred income annuities that can be purchased with up to $125,000 (or 25% of qualified savings, if less) in qualified money, whose income start date can be delayed until age 85, and whose premium can be excluded from calculations of the required minimum distributions that otherwise must be withdrawn from tax-deferred savings starting at age 70½.

Payment options for the MetLife Retirement Income Insurance QLAC include both Lifelong

Income for One, which guarantees the participant will receive fixed payments for as long as he or she lives, and Lifelong Income for Two, which guarantees that the participant and his or her spouse will receive fixed payments for as long as at least one of them lives.

The MetLife Retirement Income Insurance QLAC also offers an optional inflation protection feature, which increases a participant’s income payments each year. In an effort to protect a participant’s payments from an increased cost of living, he or she can choose to have them increase by 1%, 2% or 3% each year.

The chart below, provided to *RIJ* by MetLife today, shows current payout rates for a single life MetLife Retirement Income Insurance QLAC with unisex pricing. The return of premium death benefit applies if the contract owner dies before the income start date.

Monthly and Annual Examples of QLAC benefits:

Age	Commencement Age	Return Of Premium Death Benefit	Purchase Amount	Monthly Benefit	Annual Benefit
65	80	Y	$ 125,000	$ 1,878	$ 22,533
65	80	N	$ 125,000	$ 2,488	$ 29,854
65	85	Y	$ 125,000	$ 2,916	$ 34,991
65	85	N	$ 125,000	$ 4,881	$ 58,572

The QLAC product category was created in July 2014 by a Treasury ruling. Until MetLife’s announcement yesterday, all of the QLACs created since then have been retail products for the IRA rollover market. AIG, Americo, First Investors, Lincoln Financial, Pacific Life, The Principal and Thrivent have already issued QLACs. Other companies have rollover QLACs in the works.

MetLife characterized its new product as the first in-plan QLAC. But no fixed deferred income annuity (DIA) products are yet available in the retirement plan market that would allow participants to accumulate chunks of future income with each contribution and thereby avoid the behavioral problem of parting with a large lump sum all at once at or during retirement.

The regulatory path to a DIA like that—though not necessarily a QLAC—was cleared by the Treasury Department and the Department of Labor last fall when the agencies announced that a fixed deferred income annuity sleeve could be created in a target date fund as a qualified default investment alternative, or QDIA.

Presumably, some participants who are offered the MetLife QLAC as a distribution option in their plan would want to compare the price of the MetLife Retirement Income Insurance product with the prices of QLACs from other companies, which they could purchase with a rollover. At any given time, annuity payout rates can vary by as much as 10% from one carrier to another, so it makes sense to shop around.

A rollover QLAC without unisex pricing might in fact offer men a better price than a unisex product, even if the unisex product was available at a low institutional or wholesale price. It is unclear whether MetLife would have to advise plan participants, especially men, that they should explore the retail market.

But the MetLife product is clearly a venture into new territory in terms of providing longevity risk protection to plan participants. It presents a potential alternative to the optional lifetime income riders offered by Prudential, Empower (formerly Great-West) and John Hancock on their target date funds in the retirement plans they manage.

Their product type, similar to a variable annuity with a lifetime income rider, typically offers a smaller guaranteed payout than a comparable income annuity in exchange for upside potential and greater flexibility. A consortium of insurance companies offers a similar type of guarantee on target date funds in Voya retirement plans and the United Technologies defined contribution plan.