Pacific Life issues qualified longevity annuity

By Editorial Staff *Thu, Apr 2, 2015*

The insurer's press release positions the product mainly as a way for advisors to help their clients reduce annual taxes during retirement, instead of as insurance against running out of money.

Pacific Life Insurance Company has joined AIG, The Principal, and First Investors in offering a Qualified Longevity Annuity Contract. In a press release issued this week, Pacific Life positioned the product more as a way to reduce taxes than as insurance against outliving savings.

The product is "for IRA owners who are looking to save on taxes earlier in retirement and would like to increase their guaranteed lifetime income payments at a later time," the Pacific Life release said.

In conversations with RIJ, financial advisors have mainly expressed interest in the QLAC as a tax reduction tool for high net worth clients. One advisor calculated that a husband and wife, each with an IRA worth $500,000 or more, could cut their combined taxes between ages 71 and 85 by tens of thousands of dollars by buying QLACs.

A QLAC is a deferred income annuity (DIA) purchased most often with rollover IRA assets. Under the QLAC regulations, issued in July 2014, an investor can spend up to 25% of his or her IRA assets (the current maximum premium is $125,000) on the purchase of a DIA. Taxable distributions can begin as late as age 85, rather than age 70½ for all other tax-deferred savings. Most DIAs are sold with cash refund provisions.

According to the Pacific Life release:

"It can be a source of frustration for clients who would prefer the option to take a smaller distribution, because they may not need to take as much income as required early in retirement," says Christine Tucker, vice president of marketing for Pacific Life's Retirement Solutions Division. "Greater required minimum distribution amounts may bump retirees into a higher tax bracket. It can also affect the percentage of Social Security benefits exposed to taxation. For some, it may even increase the premiums they pay for Medicare Part B and D. This is why Pacific Life's Pacific Secure Income as a QLAC may make sense for certain clients."

Others have talked about positioning QLACs as a way to provide late life income for the medical expenses that typically arise in a person's 80s, or as a way for retirees who have already decided to take Social Security at age 62 to supplement their Social Security benefits later in life.

Because so many annuities are sold through advisors, and because advisors' clients typically are affluent enough to be more concerned about reducing taxes in retirement than about running out of money, it makes sense for issuers to position QLACs as tax management tools than as pure longevity insurance.

The annuity-buying public has shown less interest in deferred income annuities, qualified or non-qualified, as pure longevity insurance—insurance that is by definition inexpensive because it only pays out if only a person lives beyond age 84 or so, which is roughly the average age of death for people who reach age 65.

“Pacific Life is an early entrant in the QLAC market. To assist advisors, Pacific Life offers unique educational resources through its Retirement Strategies Group and Advanced Marketing Group. These home-office and field specialists can help financial professionals examine the application of QLACs in a variety of financial strategies,” the Pacific Life release said.