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## QLACs Take Flight, But Will They Soar?

By Jenna Gottlieb     *Wed, Sep 3, 2014*

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*Taxable distributions from qualified longevity annuity contracts can be deferred until as late as age 85. But how popular will they be, and will they be used for longevity risk protection or as a tax strategy?*

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Providers of deferred income annuities (DIAs) expect a modest bump in sales from the Treasury Department's new rule on Qualified Longevity Annuity Contracts, but executives agree that there's a lot of work to be done in communicating the changes to distributors and the public.

In early July, Treasury announced that retirees could delay distributions from a QLAC—including the required minimum distributions that ordinarily must be taken at age 70½—until age 85. A QLAC is a DIA purchased with the pre-tax money in a retirement plan or IRA. The maximum premium for a QLAC is \$125,000 (or 25% of the purchaser's pre-tax retirement savings, if less).

As more baby boomers begin to plan for retirement, insurers expect increasing demand for DIAs. The QLAC, by making it easier for people to buy long-dated DIAs with qualified money, should expand the DIA market. "This was a nice endorsement from the government. I think it's good for all providers of income annuities," said Ross Goldstein, managing director at New York Life, the first to market a DIA in 2011 and the leading issuer of them. DIAs now account for 25-30% of the insurer's total income annuity sales, he said.

### **Removing a key barrier**

But how big an impact will QLACs have on sales? That's hard to say. Insurers feel hopeful, and distributors are getting lots of requests for information about QLACs from advisers and producers. A portion of the trillions of dollars currently held in rollover IRAs could well find its way into these products. On the other hand, the cap on premiums could limit their use.

Client behavior has suggested to New York Life that there's a demand for QLACs among near-retirees. "Since [the introduction of [GFIA], nearly 30% of policy owners who invested in [it] using qualified savings elected an income start date between the age of 70 and 70½," New York Life's Drew Lawton, an executive vice president of retirement income, wrote in a comment letter to Treasury. "This information indicates that extending the income start date beyond age of 70½ would be a helpful option for many retirees and that the RMD rules are a key barrier."

Principal Financial, which introduced a DIA in 2013, reported that DIA sales represent a little over 10% of all its retail income annuity sales and anticipated this percentage to grow. “Since the Treasury’s announcement, we have received multiple inquiries from our distributors asking when we will have a QLAC solution available. We believe the new regulations are a positive move for the industry,” said Sara Wiener, an assistant vice president at Principal Financial Group. But because QLAC limits—the lesser of \$125,000 or 25% of qualified savings—are somewhat low, Wiener said, it is unclear how much of a sales increase to expect.

One distributor had similar concerns. At Gradient Insurance Brokerage Inc., in Topeka, Kansas, vice president of marketing Jeff Quick has been receiving lots of inquiries about QLACs from the firm’s affiliated advisors. But, like Wiener, Quick thinks the QLAC limits are too low. If the limits were higher, he said, then high net worth clients might readily use a QLAC to postpone RMDs and the tax bills that come with them.

Quick, who recently co-authored the [white paper](#), “Why QLACs May Not Matter,” is somewhat skeptical of them. “The advisor will most likely use it as a marketing tool. It’s a great way to get in front of clients and talk to them about reducing RMDs [required minimum distributions]. These will be mostly high net worth individuals,” he told *RIJ*.

“People with \$300,000 to \$400,000 in qualified money aren’t going to buy QLACs that start at age 80. They’ll have to use that money to provide income between the ages of 71 and 80, when they need it most,” he added. High net worth clients might use QLACs to defer taxable RMDs until 85, so that more of their qualified money can grow tax-deferred for much longer, thus producing a larger legacy for their children. The \$125,000 cap on QLAC premiums limits the value of that strategy, however.

Wiener believes that some clients will occupy a middle ground, where QLACs can be used for both tax relief and longevity risk protection. “There are people who do not want to receive required minimum distributions at age 70½,” she said. “For those who have access to other assets, the new regulations allow them to defer receiving income from a portion of their qualified assets to a later date when those dollars may be most needed.”

### **Funded by rollover IRAs**

First Investors Life introduced its first deferred income annuity, the Single Pay Longevity Annuity, in February of this year. “We are very pleased with this product and its recent success, however, we welcomed the recent announcement by the Treasury Department concerning QLACs,” said Carol Springsteen, president of First Investors Life. “The Treasury

Department, with this ruling, expands the appeal of this type of product.”

First Investors Life’s deferred income annuity is a small but growing component of the company’s overall suite of decumulation products, she said. “Current sales have exceeded our forecasts by more than double, and the product is currently outpacing our immediate annuity sales. We expect sales to grow as customers become more familiar with their benefits and features,” said Springsteen.

The increase in sales will depend upon the specific market, she added. “For example, we anticipate more rapid adoption in the IRA market, at least initially, than the 401(k) market, due to the portability issues raised in the 401(k) world. However, overall, we expect the increase to gain momentum as clients get more comfortable with the product concept and the remaining issues get clarified.”

In terms of how First Investors Life plans to respond, “We will be endorsing our current deferred income annuity contract to facilitate a QLAC version,” said Springsteen. “We also plan to endorse our new Flexible Pay Longevity Annuity product to be a QLAC as well. We believe that since we are already selling longevity annuities it gives us a head start in developing a QLAC version of the product.”

First Investors executives believe that clients are coming to better understand deferred income annuities in general, and QLACs in particular, and the potential role they can play in ensuring a secure retirement. “The speed of acceptance really depends on the specific market as there are many options: IRAs, 403(b)/457s, and 401(k)s,” said Springsteen.

“Each is a unique market with its own adoption challenges that are just beginning to be understood. We believe the IRA market will be the most accessible market first, with the 403(b) and 401(k) markets having higher hurdles and more complex adoption issues. But long term, there is a place for these products in each of the markets noted.”

Interest in QLACs is growing at the retail level, according to advisor and DIA enthusiast Joseph Signorella, CFP. (He designed the official-looking QLAC logo that appears with this article.) “I get two detailed quote requests a day for QLACs,” Signorella, who is the host of the website, [www.qlacs.net](http://www.qlacs.net), told *RIJ*. “It is frustrating for me to call the sales desks of the insurance carriers and find that the desk reps don’t know about the QLAC rules or when it will be available to sell. They say that we are looking at Q1 2015 at the earliest.

“The QLAC does give flexibility to IRA holders on when to turn on income,” he added. “About a third of my QLAC quote requests are for amounts under the \$125,000 limit, and

from people under age 85 who are not high net worth. Many of my QLAC quote requests are from people who are still working late in their 60s and don't want to take RMD on their IRAs any time soon. QLACs give the middle class an option to defer RMDs while also addressing their longevity risk. It's a win-win for the client. That's probably what the Treasury Department wanted."

Employer-sponsored retirement plans are another potential distribution channel for QLACs. Phil Michalowski, vice president, retirement income, at MassMutual, said the firm is considering launching new options in light of the growing interest in DIAs. "Currently, in addition to deferred income annuities within IRAs, lifetime income is an option available through MassMutual's defined contribution plans," he said. "This offering enables our retirement plan participants to turn a portion of their savings into guaranteed income, depending upon their needs. And as a result of the newly introduced regulations, we are actively evaluating how best to make additional options available."

### **Role of communication stressed**

Few consumers are aware of the new Treasury rule on QLACs, and distributors have lots of questions about it. So communicating the new rule is now a priority for issuers. Some firms are further along in the process than others.

"We have provided our distributors a summary and talking points regarding the new regulations," said Weiner at Principal Financial. "As we work through the specifics, we will provide more information on the details and timing of providing a QLAC solution."

First Investors Life currently distributes its longevity annuity, and all its products, primarily through its affiliated broker/dealer, First Investors Corporation. "We communicate information on DIAs and QLACs to these representatives via in-person meetings, webinars, and conference calls," said Springsteen. "These representatives then review the product and its benefits with their clients. Representatives review each client's own unique financial situation, determining, on a case by case basis, what product works best for that particular situation."

For Lincoln Financial Group: "We will be working closely with our distribution partners as we solidify timeframes for the availability of offering QLAC status on our deferred income annuity," said Brian Wilson, assistant vice president of fixed annuity product development.

New York Life's marketing reps, however, are not at the communication stage yet. "There's a lot that goes into new regulations," said Goldstein. "Once you go past the headlines,

there's a lot to do. You have to compare regulations to contracts and determine what steps need to be taken. There's also updating the system and everything in the back end. We don't have a timeframe in place. It will be awhile."

Treasury's new rule also took awhile; it was more than two years in the making. The Treasury Department solicited comments from about 50 insurance companies, nonprofit groups and other organizations. Some were more involved in the process than others.

Treasury minimally engaged Principal Financial in the drafting of the new regulations, said Wiener. "However, we are pleased the new regulations allow a Return of Premium Death Benefit provision. One of the complaints surrounding DIA products is that there is no death benefit provided upon the owner's death prior to the income start date. The Principal's DIA product, along with many other products in the industry, returns the premium upon death, therefore negating this public concern," she said.

The Treasury Department did not ask for First Investors Life's input when drafting the new rule, but they were actively working with its outside tax counsel in obtaining feedback to craft an approach, said Springsteen.

There was a lot of back and forth and it took a few years to get here, but in the end, is the new rule truly responsive to the markets' needs? Executives who spoke to *RIJ* seemed confident that the new rule represents a clear endorsement from the government. They believe that investors will respond positively.