The Principal adds ‘QLAC’ status to a DIA

By Editorial Staff *Thu, Feb 5, 2015*

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The Principal Financial Group will make its existing deferred income annuity (DIA) available as a qualified longevity annuity contract (QLAC), allowing pre-retirees and retirees to use qualified savings to do what was difficult or impossible before 2014: buy an annuity with an income start date between ages 70½ and 85.

In late 2014, American General, an AIG company, offered a DIA that was endorsed as a QLAC.

“From the standpoint of current designs, most of the [existing] DIAs will require an endorsement or rider to fully comply with the QLAC regulations,” said Sara Wiener, assistant vice president of annuities at The Principal. “The endorsement has to state that the client has full accountability for complying with the premium limit. It explains what, if excess premium is identified, the carrier will do.”

Such products became possible last year, thanks to a change in Treasury Department regulations. Previously, any deferred income annuity purchased with qualified (pre-tax) money—for most people, that means money from a rollover IRA—had to begin making payments at age 70½, so that the contract owner could make the taxable distributions that are required starting at that age.

Under the new QLAC rules, individuals can use up to 25% of their pre-tax savings (but not more than $125,000) to purchase a DIA whose payout starts after age 70½. Such a product can help retirees in a couple of ways.

It can reduce their annual tax bill by delaying taxable distributions, and it allows them to capture the so-called “survivorship credits” that come from buying the longevity risk insurance such as DIA and pooling mortality risk with other people of the same age.

Generally, the older the contract owner at the income start date, the larger the purchase premium, and the higher the prevailing interest rates at the time of purchase, the larger the monthly payout will be.

Wiener noted that sales patterns of The Principal’s non-QLAC DIA show that people are using it either as a personal pension or as pure longevity insurance, with no dominant usage pattern. She sees potential for more DIA sales to married couples. “A DIA is a great tool for leaving more money to a surviving spouse. A majority of those in poverty in old age are widows,” she said.

As a standard feature, The Principal’s DIA and QLAC include a return-of-premium death benefit if the contract owner(s) die during the deferral period. A return of unpaid premium rider for the income period is optional.