AnnuityAdvantage Hails New Regulations From Treasury Department Giving Employees More Options for Retirement Income Planning

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MEDFORD, Ore., July 17, 2014 /PRNewswire/ -- Effective July 2, the Treasury Department has enacted new rules allowing employees to convert a portion of their IRA or 401k retirement funds into a qualifying deferred income annuity, officially designated as a Qualified Longevity Annuity Contract (QLAC). The rules say that the value of longevity annuities can now be excluded from calculations of required minimum distributions (RMDs). Ken Nuss, founder of AnnuityAdvantage, sees this as an opportunity for near-retirees to hedge against the distinct possibility of outliving their retirement savings.

A deferred income annuity differs from an immediate annuity only in terms of the payout schedule. As the name implies, payouts on a deferred income annuity begin at a later date.

Since insurance companies introduced these annuity products three years ago, growth has been strong. In 2013, deferred income annuity sales represented $2.2 billion of the total annuities market. While that's only a small percentage of the total market, deferred income annuities have seen expansion while other annuity product categories, such as variable annuities, have seen sales stagnate or even contract.

Employees can fund QLAC plans with the same pre-tax dollars as their normal retirement investments. Payouts typically begin at age 80 or 85; with this in mind, retirees can more liberally withdraw from other sources of retirement income, confident that their deferred income annuity will kick in at a set date. Once payments begin, they continue for life.

"AnnuityAdvantage recommends that employees at or near retirement age consider funding a QLAC as a safe, secure way to insure oneself against exhausting ordinary retirement savings," remarked Nuss. "Deferred income annuities function much like an individual pension plan, creating a lifelong and predictable income stream. For those concerned with beneficiaries, the final rules allow for a return of premium option should the purchasing retiree die before (or after) the age when the annuity payments begin. Utilizing this option, the premiums they paid, but have not yet received as annuity payments, would be returned to their account upon death."

Greater longevity among Baby Boomers has motivated the development of deferred income annuities. Today, a healthy couple, both aged 65, are likely to live well into their 80s; the chance of one spouse reaching 92 is 50%. By codifying longevity annuity contracts in the federal tax regulations, the Treasury Department is signaling that retirement income security is a national priority. According to the rules, investors can divert up to 25% or $125,000 – whichever is less – of their retirement account balances to a QLAC.

The mathematics of deferred income annuities work out such that the earlier one makes an initial investment, the larger the payout in the future, because the insurance company has more time to grow the lump sum. Currently, a man could deposit $20-25,000, depending on refund options selected, at age 65 and begin receiving $1,000 a month at age 85; a woman would need to deposit slightly more given her longer life expectancy.

Because the Treasury Department's rules are designed to maximize retirement income security, only fixed annuities are approved as QLACs; variable and indexed annuities will continue to be subject to the same minimum withdrawal requirements as typical investment vehicles.

Keeping tabs on the latest developments in annuities and the federal legislation that impacts the marketplace is only one of the many services provided by AnnuityAdvantage. A company representative was recently quoted in a Barron's article on the top 50 annuities for 2014, making the third straight year the publication had leveraged the organization's broad expertise to help inform its readership.

About AnnuityAdvantage

Founded in 1999 by veteran financial and retirement planner Ken Nuss, AnnuityAdvantage is a leading online provider of fixed-rate, fixed-indexed, and immediate income annuities. Consumers planning for retirement have come to rely on AnnuityAdvantage for individualized, expert recommendations and guaranteed, high-value annuity products that have been thoroughly screened by Nuss and his staff. The company's client-centered approach allows consumers to find the best mix of annuity products for their unique needs from the hundreds of annuities available through AnnuityAdvantage. There are no fees for the service.

Nuss is an active member of the National Association of Insurance and Financial Advisors (NAIFA), the National Association for Fixed Annuities (NAFA), and the National Ethics Association (NEA). He holds an Oregon insurance consulting license, along with an individual producer license in all 50 states and the District of Columbia.

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