



# WHO SHOULD CONSIDER A QLAC?

(and what the heck is that?)

Believe it or not, sometimes the federal government does you a favor.

With the Secure Act 2.0 of 2022, investors with qualified pre-tax retirement accounts like those within a 401(k) or Traditional and Rollover IRAs are able to use up to \$210,000 (2025 maximum) of those funds to purchase a unique deferred income annuity<sup>[1]</sup> called a Qualified Longevity Annuity Contract (QLAC).



## WHY A QLAC IS HELPFUL FOR SOME?

**Lowering taxable income** - By shielding an amount from the RMD calculation, the amount required to be withdrawn from your IRA or other qualified plans is reduced thus lowering your taxable income for that year and lowering your taxes. This reduction to taxable income continues from age 73, when RMDs would normally start, until you decide to start the guaranteed lifetime income stream from the QLAC, generally between ages 80 and 85.

Should you use the funds for medical expenses, those would be considered tax deductible, at least under current tax law. Funding tax-deductible expenses with tax-deferred dollars is efficient tax planning. As a reminder, we encourage you to consult with your tax advisor to obtain advice specific to you.

### **Guaranteeing lifetime income stream -**

The owner of a QLAC may turn on a guaranteed lifetime income stream[2] at a future date that is higher than what would be if offered at inception. Each year you defer income from the QLAC, the lifetime guaranteed monthly income amount[3] increases. That means that if you or your spouse (if joint benefit is elected) live to age 95 or 105 or 115, you continue to receive the same monthly amount, which in total could well exceed the initial amount rolled over to the QLAC.

### **Providing alternative long term care funding -**

Some of our clients worry about the additional future costs associated with Long Term Care (LTC) needs. For many, there is great uncertainty around the possible amount of care needed and the associated costs. Can I stay in my home? How many hours a day will I need help? A QLAC can serve as supplemental income providing a monthly amount that would not likely be met from an investment account alone when factoring in the unknown duration of the need. Because there is a limit to how much can be rolled into a QLAC, **it is likely this would only be supplemental and not cover all needs for long term care.**



**No LTC needs, GREAT – Go have fun! –** You are not required to use the monthly income from a QLAC for LTC needs. This future source of lifetime guaranteed income can be used for anything. When you reach the age you wish to start the income, you can decide for what purpose you want to use the money - extra travel, hobbies, gifting to grandkids, or whatever makes sense for you. It is your money, so enjoy it, but remember, once started, the withdrawals will be subject to income tax each year, just like your IRA RMDs.

### **WHY A QLAC IS NOT FOR EVERYONE?**

**Personal Financial Picture –** We work with clients and their financial plans to determine if a QLAC should even be considered. No funds in qualified accounts would mean it is not possible to take advantage of a QLAC. Generally, if an IRA is the primary source of income and its anticipated growth is borderline sustainable, it would not make sense to reduce that IRA balance and raise the current withdraw rate just to get the benefits of a future QLAC income. QLACs are inflexible, meaning, you will lose access to the principal until the income is turned on and even then, only the lifetime monthly income will be paid out.

**Longevity** – Some clients have expressed the likelihood of a shorter lifespan. Of course, nobody knows the future, but QLACs have the most benefit when longevity is at least a moderate possibility and concern of the client. The QLAC can be tailored a bit for a client's personal situation, but **its value is best when protecting against “living too long” or outliving what you’ve saved.**

**No Growth for Beneficiaries** – If a client's goal is focused on heirs and beneficiaries rather than future personal spending needs, a QLAC is likely not a good fit. Should the client elect the cash refund option upon death, their beneficiaries are guaranteed to receive the QLAC purchase amount less any distributions made. However, it is important to note that the beneficiaries would not receive growth on that amount.



For many clients, the \$210,000 in an IRA is never projected to be needed in their financial planning. The Secure Act of 2022 has given these clients a way to shelter a bit of funds from tax and create a nice supplemental future income stream.

***If you or someone you care about is interested in learning more about how a QLAC could be part of a comprehensive financial plan, please contact our office or share this information with them.***

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[1] Deferred income annuity contracts are generally irrevocable, have no cash value and do not allow withdrawals.

[2] Annuity guarantees are subject to the claims-paying ability of the issuing insurance company.

[3] Income payments and distributions from the annuity will be taxable.

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