



Retirement Planning

When Does a Qualified Longevity Annuity Contract Make Sense?

QLACs can potentially help investors delay or reduce required minimum distributions from their retirement accounts. Here are the details



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According to a recent study, 64% of Americans are more worried about running out of money than dying.¹

The fear of outliving your retirement savings is real and prompted by a confluence of factors: increased longevity, the continued decline of defined benefit plans, concerns over Social Security's long-term viability, market turbulence, and inflation. In fact, 54% of the respondents to the survey underlying the study said inflation contributes to their fear of running out of money.

The question of "Will I have enough income to last throughout retirement?" has led some retirement investors to consider purchasing a Qualifying Longevity Annuity Contract (QLAC).

The owner of an IRA (including SEP or SIMPLE) or a 401(k) plan participant must begin taking required minimum distributions (RMDs) upon turning age 73 or 75, depending on their year of birth. In other words, the account owner must begin taking retirement income whether or not it is needed. A QLAC helps solve this potential problem. How? A QLAC is not included in the value of the owner's IRA or 401(k) account when calculating their annual RMD.

This special tax treatment, however, is only afforded to a deferred annuity that meets several requirements, and it must be purchased inside an IRA or 401(k) account.

What is a Qualifying Longevity Annuity Contract (QLAC)?

Purchasing an annuity can be complicated, with many kinds to choose from. Fortunately, QLACs don't add a layer of complexity; QLAC funding rules have been simplified with the recent passing of Secure Act 2.0.

QLACs were first introduced through regulations issued by the IRS in 2014 enabling retirees to plan for their future income needs using their retirement account. A QLAC serves as a deferred annuity that a retirement investor can purchase, up to a certain amount, using their IRA or 401(k) funds. In other words, [QLACs are an IRS-approved vehicle](#) to secure a lifetime income stream from your retirement account, ensuring you don't outlive your savings during retirement. Furthermore, QLACs also can reduce annual RMDs.

A QLAC serves as a fixed deferred annuity that is provided as a distribution option and typically is purchased near or during retirement, with income commencing sometime in the future (and continuing for the rest of the account owner's life).



The retirement account owner pays a single premium now (to the insurance company) and then elects when to start receiving lifetime income. For instance, you may purchase a QLAC at age 65 and have your income begin at age 75. Typically, the longer the deferral period, the higher your income will be when you start receiving payments.

For example, let's say Linda, age 70, owns a traditional IRA. She is confident she will not need her entire RMD to cover living expenses. By purchasing a QLAC today (roughly three years before her RMDs begin), using a portion of her IRA funds, she would not have to take RMDs on the assets used to make the purchase. Furthermore, she would receive guaranteed² lifetime income starting at a later date, as late as age 85.

During her deferment period, Linda would rely on other sources of income including Social Security, a pension, non-qualified annuities, taxable brokerage accounts, RMDs, etc. to cover her living expenses.

What are some of the key facts regarding QLACs?

- Not all longevity annuities are QLACs. A QLAC must be purchased from an insurance company, and the contract must state that it is intended to be a QLAC. In addition, the annuity must not be a variable or indexed annuity. For example, if you purchase a longevity annuity, which doesn't qualify as a QLAC, it won't reduce RMDs.
- Regulations allow an IRA owner or a participant in a 401(k), 403(b), or governmental 457(b) plan to use a portion of their account to purchase a QLAC. Employer-sponsored retirement plans (e.g., 401(k)s), however, are not required to offer the option to purchase a QLAC.
- A QLAC reduces RMDs years before your income stream begins. Your retirement account balance invested in a QLAC isn't included to calculate RMDs until the income from the QLAC begins or you turn 85, whichever occurs first. Income derived from a QLAC can begin as late as age 85. Payments must start no later than the first day of the month after the month in which a retirement account owner turns age 85.
- If you are married, you can choose a joint contract by adding your spouse, which will provide income payments that will continue for as long as one of you is alive. Initially, choosing a joint contract may decrease your initial income payments—compared with a single life contract—but the income will be paid for two lives, which may provide a longer timeframe of income payments than a single contract.
- The rules allow QLACs to be purchased after age 73.
- Death benefits must meet specific requirements, depending on various factors, such as whether the beneficiary is a spouse, and when the account owner dies
- A deferred annuity purchased within a Roth IRA cannot qualify as a QLAC.

What is the maximum amount allowed to purchase a QLAC?

For 2025, the QLAC maximum limit is \$210,000 (indexed for inflation). Furthermore, this amount is a lifetime limit and applies in aggregate to all your retirement accounts. The QLAC limit, however, applies separately to each spouse where each has their own retirement account. Therefore, if both you and your spouse have retirement accounts, you can allocate up to \$210,000 each.

For example, if the total value of your IRAs (traditional, SEP, and/or SIMPLE IRA) is \$500,000, and you purchase a QLAC for \$210,000, your RMD will be calculated on an account value of \$290,000.

What does Secure Act 2.0 say about QLACs?

Prior to 2023, the rules determining the maximum QLAC purchase limit were somewhat complicated, involving both a percentage (25%) and total dollar amount. With the passage of The SECURE Act 2.0 of 2022, the purchase limit was simplified—the percentage was repealed, and the maximum lifetime funding amount was increased to \$210,000 (indexed for inflation). If you purchased a QLAC in prior years that was less than the current \$210,000 limit, you are eligible to invest more. For example, the original limit was \$125,000.

Secure Act 2.0 also facilitates the sale of QLACs with spousal survival rights and clarifies that free-look periods are permitted up to 90 days.

The decision to purchase a QLAC is based on your specific situation, taking into account your family needs and financial goals.

Questions? Please contact your Lord Abbett representative at 888-522-2388.

¹"2025 Annual Retirement Study," Allianz Center for the Future of Retirement, April 22, 2025.

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



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A **401(k) plan** is a qualified plan that includes a feature allowing an employee to elect to have the employer contribute a portion of the employee's wages to an individual account under the plan. The underlying plan can be a profit-sharing, stock bonus, pre-ERISA money purchase pension, or a rural cooperative plan. Generally, deferred wages (elective deferrals) are not subject to federal income tax withholding at the time of deferral, and they are not reported as taxable income on the employee's individual income tax return.

A **403(b) plan**, also known as a tax-sheltered annuity plan, is a retirement plan for certain employees of public schools, employees of certain Code Section 501(c)(3) tax-exempt organizations and certain ministers. A 403(b) plan allows employees to contribute some of their salary to the plan. The employer may also contribute to the plan for employees.

Plans of deferred compensation described in IRC section 457 are available for certain state and local governments and non-governmental entities tax exempt under IRC Section 501. They can be either eligible plans under IRC 457(b) or ineligible plans under IRC 457(f). Plans eligible under 457(b) allow employees of sponsoring organizations to defer income taxation on retirement savings into future years.

A **Simplified Employee Pension (SEP)** plan allows employers to contribute to traditional IRAs (SEP-IRAs) set up for employees. A business of any size, even self-employed, can establish a SEP.

A **SIMPLE IRA** is a retirement plan that may be established by employers, including self-employed individuals. The employer is allowed a tax deduction for contributions made to the SIMPLE. The employer makes either matching or nonelective contributions to each eligible employee's SIMPLE IRA, and employees may make salary deferral contributions.

Traditional IRA contributions plus earnings, interest, dividends, and capital gains may compound tax deferred until you withdraw them as retirement income. Amounts withdrawn from traditional IRA plans are generally included as taxable income in the year received and may be subject to 10% federal tax penalties if withdrawn prior to age 59½, unless an exception applies.

Required minimum distributions (RMDs) are the minimum amounts that participants in workplace retirement plans must withdraw from their retirement accounts each year. An account holder generally must start taking withdrawals from their traditional IRA, SEP IRA, SIMPLE IRA, and retirement plan accounts when they reach age 73.

A **Roth IRA** is a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax free if the account has been held at least five years, and the individual is at least 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax deductible, but withdrawals during retirement are generally tax free.

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