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Ken Berry, JD • Aug. 18, 2014

People are living longer due to medical advances and other factors. So it only stands to reason that outliving your retirement savings is becoming a greater concern. Nevertheless, the IRS continues to insist that elderly taxpayers make "required minimum distributions" (RMDs) from their qualified retirement plans and IRAs each and every year.

Now the IRS has eased the burden ever so slightly. In new final regulations issued July 1, it says that "qualified longevity annuity contracts" (QLACs) are exempt from the usual RMD rules.

the extra money could trigger or increase the 3.8% surtax on net investment income because the payouts count toward your modified adjusted gross income (MAGI). Finally, you'll have less money to live on comfortably if you live past your projected life expectancy.

And don't even think about skipping or ignoring an RMD. The tax penalty is severe: It's equal to a staggering 50% of the amount that should have been withdrawn…on top of the regular income taxes you'll owe.

The financial services industry noticed the problem plaguing retirees who are living longer than expected. It came up with the concept of a QLAC, which provides guaranteed income for your lifetime after you attain a specified older age, usually 80 or 85. As with a regular deferred annuity, you invest in the annuity in exchange for future payments, but the payout benefit is calculated at the time of the contract investment, like it is with an immediate annuity.

Previously, the IRS included QLAC amounts in IRAs and qualified plans in the RMD calculation. However, under the new regs, QLACs are exempt if certain conditions are met. To qualify:

- The amount of retirement savings invested in a QLAC can't exceed 25% of all your IRA account balances combined and 25% of each separate non-IRA account.
- The 25% threshold is capped at $125,000 for all IRAs and non-IRAs combined. Under the final regulations, this $125,000 limit will be indexed for inflation in multiples of $10,000.
- The QLAC must provide distributions beginning no later than the first day of the month following annuitization, with a maximum specified age of 85. The IRS may adjust this age limit in the future to reflect mortality changes.
- The QLAC can't include a variable, indexed or a comparable annuity contract or allow any cash surrender value or other similar features (subject to future changes

by the IRS).

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