Anchin Compensation and Benefits Services Group

July 22, 2014

How to Defer Retirement Plan Distributions Until Age 85

To Our Clients and Friends:

With limited exceptions, required minimum distributions from retirement vehicles such as 401(k) plans and Individual Retirement Accounts (IRAs) have had to commence shortly after the owner reaches the age of 70 1/2. Failure to do so triggered a daunting excise tax, calculated at 50% of the missed distribution.

New Opportunity

On July 1, it became possible to defer certain plan distributions for another fifteen years, until age 85. To do so, one must purchase a Qualified Longevity Annuity Contract (QLAC) within a company plan that permits it, or a traditional IRA. A QLAC is a deferred annuity, which means that a single premium is paid today, but annuity payments will not begin until well into the future, perhaps significantly beyond normal retirement age. This offers two valuable advantages:

- It is far less costly to purchase a deferred annuity than one whose payments begin immediately; and
- It can create a new income stream that begins deep into retirement, when other assets may have been depleted. This decreases the possibility of outliving one's money.

A QLAC's premium is limited to 25% of a plan's account balance, or $125,000, whichever is lower. Depending on one's age and health, $125,000 can purchase a substantial deferred annuity. To encourage this form of late-retirement funding, and to relieve the burden of receiving cash distributions from a plan containing an illiquid asset such as an annuity, the law excludes the value of a QLAC from the computation of one's annual, mandatory plan distributions. Instead, distributions from the annuity must begin no later than the month following the account owner's 85th birthday.

To learn more about deferred annuities and how they can help you preserve your retirement plan assets, please contact your Anchin Relationship Partner, Deborah de Vries or Clarence Kehoe, Co-Practice Leaders of Anchin's Compensation and Benefits Services Group, at 212.840.3456.

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