

Publications

QLACs and Lifetime Income Makes the IRS Guidance Plan List

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As early as 2010, when the Internal Revenue Service (IRS) and the Department of Labor (DOL) made their initial Request for Information on how the agencies could best facilitate lifetime income products for retirement plans, there has been a strong interest in providing lifetime income options to participants within defined contribution plans. This need has only increased over the years as more and more defined contribution plans move away from offering an annuity form of benefit, and as the number of defined benefit plans declines. Employers have been anticipating products that help provide for lifetime income for participants, and address market and longevity risks.

In 2012, the IRS issued a series of guidance that was designed to help facilitate lifetime income products. In 2014, the IRS finalized the regulations that developed a new product, called a Qualifying Longevity Annuity Contract (QLAC) for the IRA and qualified plan market (governmental 457(b), 403(b), and defined contribution 401(a) plans). In August 2016, the US Government Accountability Office issued a report entitled “401(k) Plans DOL Could Take Steps to Improve Retirement Income Options for Plan Participants,” indicating that more work still needed to be done to facilitate these products within qualified plans. At the same time, the IRS’s 2016-2017 Priority Guidance Plan was announced which included as two of their guidance items (1) additional guidance regarding QLACs, and (2) additional guidance on issues relating to lifetime income from retirement plans and IRAs, recognizing the need for additional guidance in this area. This article reviews the existing IRS guidance and what additional IRS guidance is needed to facilitate mass appeal of these products within pre-approved and individually designed qualified plans.

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