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New Research from EBRI:

Improving Retirement Security Through a Qualifying Longevity Annuity Contract

WASHINGTON—In recent years, the prospect of expanding individual interest in annuitizing at retirement has been enhanced through the availability of an insurance product designed to provide monthly benefits, but only after a significant deferral period in retirement. Since these products can be offered for a small fraction of the cost for a similar monthly benefit through a single premium immediate annuity (since the individual is absorbing the risk during the deferral period), many believe that this type of product would at least partially mitigate the individual's reluctance to surrender control over a large portion of their defined contribution and/or IRA balances at retirement age.

In 2014 one of the major constraints of using this type of product in a qualified retirement plan, such as a 401(k), was eliminated when the Department of the Treasury and the Internal Revenue Service issued final rules creating a qualifying longevity annuity contract (QLAC) that would be exempt from the requirement that distributions from defined contribution plans and individual retirement accounts would typically need to begin by age 70-½ (significantly earlier than the age at which payments commence for these products).

A new EBRI analysis models two scenarios under which QLACs could be utilized as part of a 401(k) plan. The first scenario would attempt to convert 15 percent of the 401(k) balance with the current employer to a QLAC premium while simultaneously attempting to partially mitigate the risk of purchasing the product when interest rates are low. The second proposal assumes (some) plan sponsors would be willing to convert the accumulated value of their 401(k) contributions to a QLAC purchase at retirement age on either an opt-in or opt-out basis for the employees.

"The analysis finds that, even at today's historically low interest rates, the use of QLACs, through the transfer of longevity risk to the insurer, provides a significant increase in retirement readiness for the longest-lived quartile with only a small reduction for the general population. Sensitivity analysis on the QLAC premia resulting from likely increases in future interest rates provide even more favorable results," said Jack VanDerhei, EBRI research director and author of the report.

"While it is still too early to know how individuals' demand for these products and the insurance industry's supply of QLAC options will eventually modify the market for longevity annuities, it is useful to model the degree to which QLACs can improve retirement security," VanDerhei noted.

The full report, "How Much Can Qualifying Longevity Annuity Contracts Improve Retirement Security?" is published in the August 2015 *EBRI Notes* and is online at www.ebri.org

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