

# Attention

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Effective January 1, 2018, the Qualifying Longevity Annuity Contract (QLAC) maximum dollar contribution limitation is being increased from \$125,000 to \$130,000.<sup>1</sup>

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<sup>1</sup> Other contribution limits imposed by federal tax law may apply.

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**Does the latest weapon in the battle for lifetime financial security belong in your retirement-plan arsenal?**

# SECURE YOUR RETIREMENT

Kiplinger's clear-eyed view of Qualifying Longevity Annuity Contracts (QLACs) and the role they can play in ensuring that you don't outlive your money.

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**Brighthouse**

FINANCIAL

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## Dear Reader:

Retirement distributions are a necessary part of retirement — and whether you're taking these distributions now or will be in the near future — now's a good time to review your plans.

Changes in U.S. Treasury regulations for IRA and qualified plan required minimum distributions taken at age 70½ — commonly referred to as RMDs — now allow a deferred income annuity to be purchased as a qualifying longevity annuity contract (QLAC). With a QLAC, retirees can postpone taking a portion of their RMDs and delay taxation for part of their tax-qualified assets they won't need until later — up to age 85.

Brighthouse Financial is pleased to announce the availability of a QLAC for qualified individual retirement accounts with the Brighthouse Guaranteed Income Builder<sup>SM</sup> deferred income annuity. Designed to help you generate pension-like, lifetime income using a portion of your retirement assets, Guaranteed Income Builder is available either with or without the QLAC option. Its flexible features and benefits can add a degree of certainty and predictability to your retirement income planning by:

- Offering consistent income for as long as you live;
- Providing lifetime income without market risk; and
- Letting you know — at purchase — how much your future income payments will be, and when you'll begin receiving them.

We offer you this complimentary publication<sup>1</sup> from **Kiplinger's Personal Finance** magazine to help you and your financial professional navigate the rules regarding retirement distributions, deferred income annuities and QLACs. Should you have questions about the Brighthouse Guaranteed Income Builder please ask your financial professional or visit [brighthousefinancial.com](http://brighthousefinancial.com).

Sincerely,

**Matthew Quale**

Vice President

Marketing & Branding

Brighthouse Financial

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• Not Guaranteed by Any Bank or Credit Union

<sup>1</sup> The opinions expressed throughout this publication do not necessarily reflect the opinion of Brighthouse Financial.

Any discussion of taxes is for general informational purposes only, does not purport to be complete or cover every situation, and should not be construed as legal, tax or accounting advice. You should confer with qualified legal, tax and accounting advisors as appropriate. A QLAC does not make available any cash out option, cash surrender right, or other similar feature. Adhering to the purchase limit is your responsibility. This product is a long-term investment designed for retirement purposes. Note that income options and features may vary by state.

**The Brighthouse Guaranteed Income Builder<sup>SM</sup> deferred income annuity, like all annuities, is an insurance product and not insured by the FDIC, the NCUSIF or any other government agency, nor is it guaranteed by, or the obligation of, the financial institution that sells it. All contract guarantees and annuity payout rates are subject to the claims-paying ability and financial strength of the issuing insurance company. They are not backed by the broker/dealer from which this annuity is purchased, by the insurance agency from which this annuity is purchased or any affiliates of those entities and none makes any representations or guarantees regarding the claims-paying ability and financial strength of the issuing insurance company. Similarly, the issuing insurance company does not back the financial strength of the broker/dealer or any of its affiliates.**

Like most annuity contracts, Brighthouse Financial contracts contain charges, limitations, exclusions, holding periods, termination provisions and terms for keeping them in force. Distributions of taxable amounts are subject to ordinary income tax and, if made before age 59½, may be subject to a 10% federal income tax penalty. Some broker/dealers and financial professionals may refer to the 10% federal income tax penalty as an "additional tax" or "additional income tax," or use the terms interchangeably when discussing withdrawals taken prior to age 59½. Distributions of taxable amounts from a nonqualified annuity may also be subject to the 3.8% Unearned Income Medicare Contribution tax if your modified adjusted gross income exceeds the applicable threshold amount. The Brighthouse Guaranteed Income Builder is issued by Brighthouse Life Insurance Company (Brighthouse Financial) on Policy Form 6-1001-1 (05/14), 11225 North Community House Road, Charlotte, NC 28277.

# INTRODUCTION

As Americans live longer, more and more of us worry about whether we will have the means to pay for a secure retirement. Or, to put it bluntly: As we contemplate living 20, 30 or more years after our paychecks stop, how can we make sure that we don't outlive our money?

The statistics paint a sobering picture. A recent government report found that nearly 30% of households that include someone age 55 or older have no retirement savings—no individual retirement account (IRA), no 401(k) or similar employer-based plan, no pension plan. Of the households that do have savings, the median amount is just \$104,000 for those age 55 to 64 and \$148,000 for those age 65 to 74. In fact, Social Security provides most of the income for about half of the U.S. households that include someone age 65 and older, and the average monthly Social Security benefit paid to retired workers in the middle of 2015 was just \$1,335. No wonder another study found that only 22% of Americans are “very confident” about having enough money for a comfortable retirement.

Concern about financing retirement has increased as the number of workers covered by defined-benefit pension plans has decreased. In 1975, for example, about 27 million employees were covered by pension plans (and not yet receiving benefits). By 2012, the number was less than 16 million. With a pension, you can't outlive your money because once payments start, they continue until you die. That's similar to the way Social Security works (although most pensions



do not provide the annual cost-of-living increases that Social Security beneficiaries enjoy).

There's no such guarantee with IRAs or defined-contribution plans such as 401(k)s, 403(b)s and the federal government's Thrift Savings Plan. Workers who save in such plans enjoy significant tax benefits. But when it comes to tapping the money in retirement, it's up to you to make sure that the money lasts. A bad year for your investments or an extraordinary expense could inflict serious financial pain.

**There is a kind of investment designed to guarantee a stream of lifetime income in retirement. It's called an annuity and is sold by life insurance companies. This booklet is designed to introduce you to a special kind of annuity that was recently authorized by the federal government for use in IRAs and company retirement plans. The goal is to provide guaranteed income to retirees for as long as they live.**

**With a pension, you can't outlive your money, but when it comes to tapping IRAs and 401(k) plans, it's up to you to make sure your money lasts .**

# WHAT THE DICKENS IS

To understand a QLAC, you need a basic understanding of how an annuity works. In its simplest form, an *immediate-pay annuity*, you hand over cash to an insurance company and the insurer immediately turns on a stream of monthly payments that will continue for as long as you live. The size of those payments depends basically on how much you invest, your age, how much the insurance company thinks it can earn on your money before it pays it out, an estimate of the life expectancies of your fellow annuitants and how much money not paid to those who die “early” can be shared with those who die later than expected.

A 65-year-old man, for example, might pay \$100,000 for an immediate annuity that pays about \$550 a month. If he dies 12 months later (with no death-benefit option), he will receive only \$6,600. But if he lives to 85, he will receive \$132,000 in total payments. If he makes it to age 95, he’ll collect nearly \$200,000.

A variation is called a *deferred-income annuity*. Rather than payments starting right away, you agree to wait for maybe 10, 20 or more years. The longer you wait, the bigger the payments will be when they start. Let’s say our 65-year-old invests \$100,000 in an annuity with an income-start age of 85. If he dies between now and then, he’ll get nothing (again, assuming no death benefit). But at age 85, he’ll begin to receive about \$3,575 a month. If he lives to age 90, the payments will total \$214,000. If he lives to 95, he’ll receive about \$428,000. This kind of annuity is often referred to as *longevity insurance* because it provides income

protection for those who live into old-old age.

Now, to answer the question posed in the title of this section: A QLAC is a Qualifying Longevity Annuity Contract. It’s a special kind of deferred-income annuity authorized by the federal government specifically for use in IRAs and employer-sponsored retirement plans such as 401(k)s.

This unique annuity avoids a problem created by the IRS’s required distribution rules for retirement plans. In most cases, owners of traditional IRAs and 401(k)s must begin to withdraw funds when they reach age 70½. The government has a very strict schedule for required minimum distributions (RMDs) and a very stiff penalty for those who fail to withdraw and pay taxes on funds fast enough.

If you were to invest in a regular deferred-income annuity inside an IRA, for example, payments would have to start at age 70½ to be counted as part of your RMD. If you wanted to wait until 80 or 85, you’d have to dig deeper into other IRA funds to satisfy the withdrawal demands. Otherwise, you’d be hit with a penalty equal to 50% of what you should have withdrawn.

And that’s where the *qualifying* part of a QLAC comes in. When certain rules are followed, the government will ignore up to \$125,000 that’s invested in a QLAC when figuring how much has to be withdrawn from the IRA. [Your total investment in QLACs may not exceed the lesser of \$125,000 or 25% of the combined total balance of your traditional IRAs and qualified employer plans (including any QLAC investments inside those plans) at the end of the previous year.]

# IS A QLAC?

If you had, say, \$500,000 in an IRA at age 70½ and \$125,000 was invested in a QLAC, your RMDs would be based on \$375,000. QLAC payments must begin no later than age 85, and when they do, the income will be added to your RMDs and other income for tax purposes. (Although the law allows QLACs in company plans, very few companies currently offer this option. That's why examples in this booklet focus on IRAs.)

The rules allow, but do not require, a QLAC to include a death benefit. If the contract owner dies before payments total 100% of what he or she paid for the annuity, for example, the shortfall could be refunded to a beneficiary. Such options, and how they reduce the monthly payments

guaranteed by the annuity, are discussed later.

The rules demand that QLACs must be easy to understand. The payment at the income start date must be guaranteed at the time you buy the annuity; it can't be tied to stock market performance or some other variable. You know exactly how much you'll pay for the annuity and how much you'll receive in each payment from your do-it-yourself pension. And the decision to purchase a QLAC is irrevocable; once you buy it, your money is tied up until it is paid out as an annuity or a death benefit.

If you are married and both you and your spouse have IRAs, you can each have a QLAC and invest up to 25% of your previous year-end balance or \$125,000, whichever is less. That means a couple can invest as much as \$250,000 in QLACs. You cannot buy a QLAC inside a Roth IRA. But that's not really a limitation. There's no need for this special breed of deferred-income annuity in a Roth because the Roth has no RMD requirements for the original owner.

## The Power of Waiting

This graphic illustrates the potential of a QLAC for those who live into old-old age. For annuities purchased for \$100,000 by a 65-year-old man, the light blue line shows the \$550 monthly payments that begin at once with an immediate annuity. The dark blue line shows that the QLAC pays nothing until age 85, but then opens a lifetime income stream of \$3,575 a month.

**\$3,575 a month**

At age 85, the immediate annuity has paid \$132,000 while the QLAC has paid \$0. But at age 90, the immediate annuity has paid \$165,000, and the QLAC has paid \$214,000. At age 95, the immediate annuity has paid \$198,000 and the QLAC has paid \$428,000.

**Immediate annuity: \$550 a month starting at age 65**

**QLAC: No payment until age 85**

**Age 65**

**Age 75**

**Age 85**

**Age 95**

# THE TAX BENEFITS

**By shielding up to \$125,000 from the RMD calculation, you can delay the tax bill from age 70½ until QLAC payments commence as late as age 85.**

Next year is a watershed year for members of the baby boom generation. In 2016, the first wave of the postwar generation will reach age 70½ and be required by law to tap into their traditional IRAs and other tax-sheltered retirement accounts. Like thousands of their elders, many boomers won't need the money right away, but will be stung by the tax bill on required minimum distributions.

This momentous milestone arrives just as an opportunity to mitigate the impact of the RMD rules is made available to them.

Qualifying Longevity Annuity Contracts allow investors to delay required payouts on as much as \$125,000 for as long as 15 years. That's because money invested in a QLAC can be ignored when figuring RMDs. The savings in annual tax bills can be substantial.

RMDs are based on the value of retirement accounts at the end of the previous year and a table developed by the IRS. For most taxpayers, that table demands that in the year you turn 70½, you withdraw about 3.65% of the previous year-end balance; the following year, you must take 3.77%, and so on, with the RMD percentage gradually increasing each year. The goal is to get you to withdraw all the money so the IRS can tax it before you die.

By shielding up to \$125,000 from the RMD

calculation, you can delay the tax bill on that amount until QLAC payments commence as late as age 85. To see the potential impact, let's say John has \$500,000 in his IRA at 70½ when required withdrawals must begin. His first RMD would be \$18,248. Assuming the balance grows at 5% a year, his next RMD would be \$19,123. Over 15 years, the total amount he'd be required to take out of the IRA would be \$381,601. And, if that were all taxed at 25%, the total income tax bill would be \$95,400.

Now, imagine that John buys a QLAC for \$125,000 to remove that much from the RMD calculations. His first RMD would drop to \$13,686; the next one, \$14,342. Using the same assumptions as above, RMDs would total \$286,201 over 15 years, and the tax bills \$71,550—almost \$24,000 less than in the non-QLAC example.

The tax bill is only delayed, not eliminated. Once John reaches age 85, taxable QLAC payments of about \$5,200 a month in this example (which assumes no death benefit) will be added to his continuing RMDs. In the year he is 85, the combination of his RMD and the QLAC payments will total \$88,330, or about \$54,000 more than the RMD from the IRA if John had not purchased the QLAC. In fewer than two years, the increased income will more than compensate for the reduced payments during the previous 15 years.

# PROTECTING HEIRS

As appealing as the prospect of guaranteed lifetime income is, many investors are troubled by the flip side of the coin: The income stops when you die. If a serious accident or illness results in a premature death, the stream of income could dry up long before you've collected as much as you paid for the annuity. This worry is magnified with a QLAC, which is designed to delay the start of payments for many years.

And, yes, this is a risk you take on in exchange for the insurance company taking on the risk that you might live and collect benefits much longer than expected.

But there are ways to hedge your bets.

The QLAC rules allow, but do not require, the annuity to include a return-of-premium guarantee. If you choose this option and die before payments begin, your designated beneficiary will receive a lump-sum payment equal to 100% of what you paid for the QLAC.

If you die after payments begin but before you have received 100% of what you paid for the annuity, this option will guarantee that your designated beneficiary receives a lump-sum equal to the difference. If you pay \$125,000 for a QLAC and die after receiving payments totaling \$40,000, for example, your beneficiary would get a check for \$85,000.

The rules also allow a QLAC to provide for joint

annuitants. If the insurance company allows it, you could arrange the payments to continue for as long as you and someone else (probably, but not necessarily, your spouse) live.

Of course, such options come at a price: a lower monthly payment than a life-only QLAC would provide—that is, one for which the payments end as soon as the buyer dies.

Here's an example: A man who invests \$125,000 in a life-only QLAC at age 65 could receive \$5,188 a month (\$62,262 a year) if payments start at age 85. If the same policy included a return-of-premium death benefit, the monthly payment at age 85 would be \$3,660 (\$43,914 a year).

On the following pages, you'll see illustrations of other QLAC examples to demonstrate how various factors—your gender, your age at purchase, your age when payments begin and whether you include a return-of-premium death benefit—affect the amount of income paid each year.



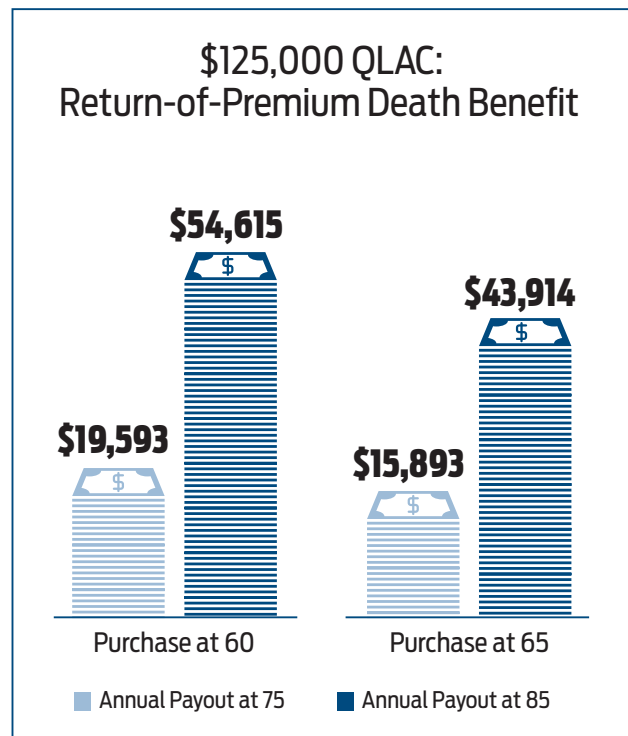
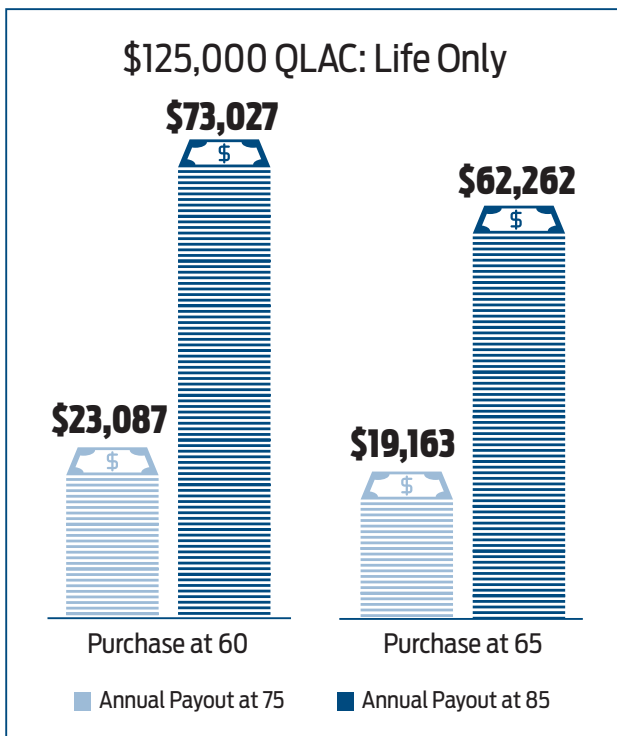
**A man who invests \$125,000 in a life-only QLAC at age 65 could receive \$5,188 a month if payments start at age 85. If the same policy included a return-of-premium death benefit, the monthly payment at age 85 would be \$3,660.**



# THE POTENTIAL

The graphs on these pages give you a quick idea of how various factors affect the lifetime income you can expect from a QLAC. Because women generally live longer than men, the monthly payments they receive will be

smaller than those paid to men, when all else is equal, because they are expected to receive more payments. The earlier you buy and the later you start payments, the higher those payments will be. And buying a life-only

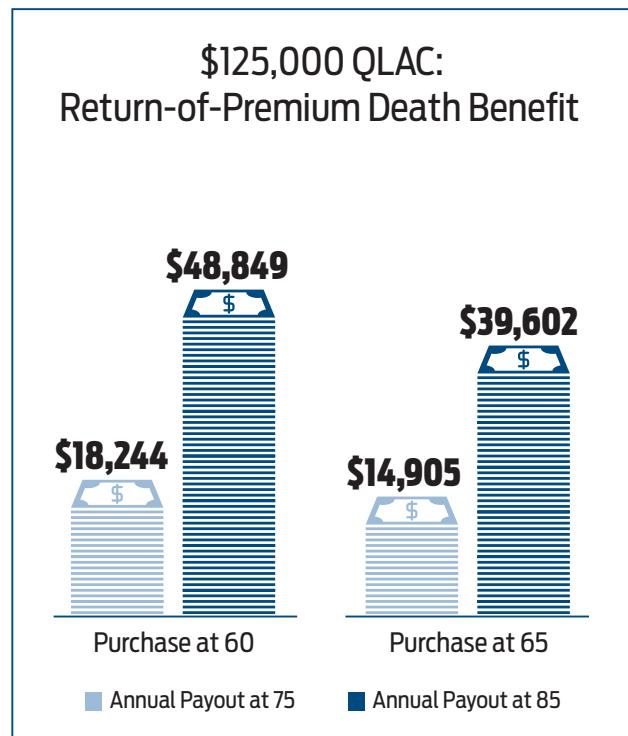
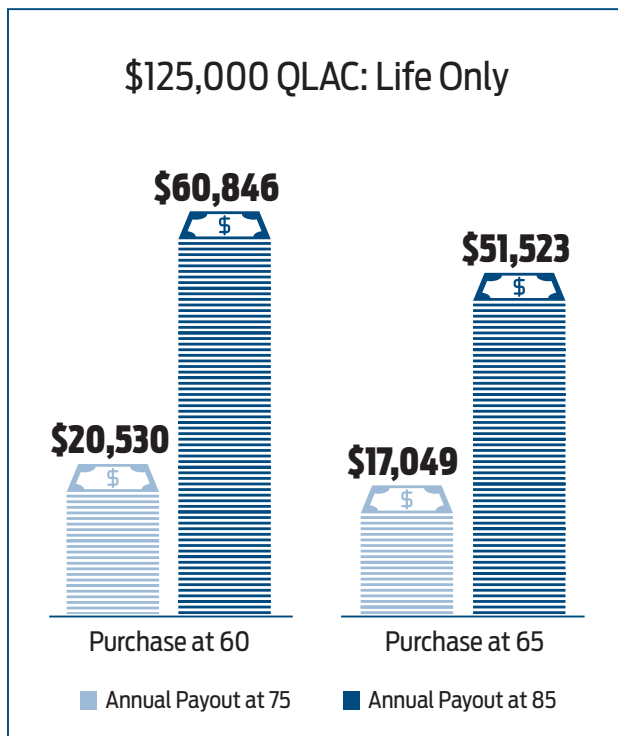


## MEN

Note that you can purchase a QLAC at any age, not just at 60 or 65. You can buy at 50, for example, or even after age 70½, when RMDs are required. Also, although you cannot delay payments past age 85, you can start payments at an earlier age.

# PAYOFF

QLAC will produce higher payments than one that includes a return-of-premium death benefit. Please recognize that these are hypothetical examples, not guarantees.



## WOMEN

In addition to life-only and return-of-premium death benefits, other options that affect pricing are arranging for the QLAC to cover the lives of joint annuitants or for cost-of-living increases that kick in after payouts commence.

# THE KNOWN UNKNOWN

A couple of factors make it literally impossible to know how a QLAC will pay off:

- 1) Your life expectancy (how long you'll receive payments); and
- 2) How inflation will behave (what those payments will really be worth).

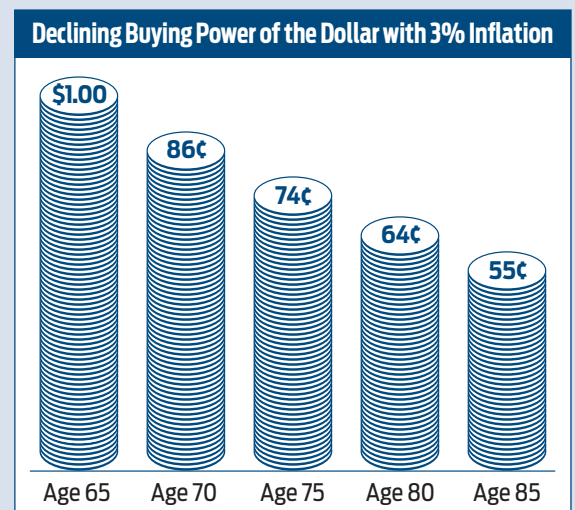
We don't have a crystal ball, but we can offer some facts for perspective. If you focus on *average* life expectancies, you may be reluctant to buy a QLAC at age 65 that delays payments until age 85. That's because a high percentage of people alive at 65 won't be around 20 years later. The Social Security Administration, which keeps a close eye on how long people live because it has a big impact on the amount of benefits paid, said in 2011 that the average life expectancy of a 65-year-old man is 17.66 years (to about age 82½); for a woman, it's 20.22 years (to just over 85).

But those are just averages. Social Security says one out of four 65-year-olds will live past age 90, and that one in 10 will live past 95. In fact, the fastest-growing age group in the U.S. is the 90-and-older crowd. In 1980, there were just 720,000 Americans in that age group. Now the number is close to 2 million and it is projected to quadruple by 2050. There are also statistics that show the probability of one member of a couple living to a certain age. Consider the table based on data from the Society of Actuaries (above right) that shows how likely it is that one or the other of a couple age 65 will be alive at various older ages.

Probability of Living to Certain Age From 65			
To age	Men	Women	Survivor
80	60%	71%	88%
85	40%	53%	72%
90	20%	31%	45%
95	6%	12%	18%

Because there is no guarantee how long you'll live, there can be no certainty about how much you'll collect from a QLAC. But a QLAC does offer assurance that you will not run out of money no matter how long you live.

What will that money be worth? That's the other mystery that comes with delaying the payout for years. The graph below shows how the buying power of the dollar will erode between ages 65 and 85 if inflation averages 3% a year, which is about the average rate over the long term.



# HOW TO SHOP FOR A QLAC

**If you think** a QLAC might make sense for you, start and end your search with top-rated insurance companies, those rated A or better by Standard & Poor's and Moody's. Because you hope to be collecting two to three decades or longer into the future, you want to make sure the insurer will be there to write the checks.

How much should you consider investing? You don't want to tie up all your money in a deferred annuity. The government helps here by setting 25% as the maximum portion of your IRAs and employer-based plans that can go into a QLAC. Consider both your income needs in early retirement and far down the road to determine whether to invest and how much to put in.

Some advisers see QLACs as a means to pace your spending in the early years of retirement, knowing that at a certain point—age 80 or 85, perhaps—the QLAC will kick in to help cover expenses. The payments could be used to make up for the loss of a deceased spouse's Social Security benefit, for example, or to pay long-term-care bills. Because your interest in and ability to handle investments may decline as you get older, having the guaranteed stream of income from a QLAC could provide relief from stress.

The more time between when you buy a QLAC and when you begin receiving payments, the bigger those payments will be. But most buyers are likely to be in their 50s or 60s. The longer you are away from retirement, the more likely investing in

stocks will produce higher returns than shifting to a more conservative investment.

As you shop, don't assume you have to buy all of your QLACs at once. You could buy one with an income start date of 75, another that kicks in at 80 and a third that starts payouts at 85 as a way to ladder your income into your later years. Or, you could buy one QLAC this year and another later, in the hope that rising market interest rates may lead to higher payouts (although delaying the investment could squeeze the payouts by shortening the deferral period). The key is not to exceed the 25% or \$125,000 limits on investing in a QLAC. (The dollar limit is not set in stone. It will increase to keep up with inflation, so it will likely rise by \$10,000 jumps every three years or so.)

If your 401(k) or other employer-based retirement plan offers a QLAC, be sure to check out its pricing. Because women generally live longer than men, annuities generally are priced higher for women. But federal law demands that company-based plans use unisex pricing, which could give women buyers an advantage. If you consider a company-based plan QLAC, be sure you understand what happens to the annuity when you leave the job.

As you shop, make sure that you are always comparing apples to apples. QLACs come with many moving parts. Eye-popping payouts 20 years from now can grab your attention. But don't let that blind you to the details. A trusted adviser can help you make the right decision.

**Don't assume you have to buy all of your QLACs at once. You could buy one that starts payments at age 75, another that kicks in at 80 and a third that begins the cash flow at 85 as a way to ladder your income into your later years.**

# NINE QUICK QLAC FACTS

**1** You can invest up to 25% of your combined IRA and 401(k) balance in a QLAC—to a maximum of \$125,000.

**2** If a husband and wife each have IRAs, both can max out on QLACs.

**3** A QLAC can start paying out at any age, but no later than age 85.

**4** Money in a QLAC is invisible to the IRS when calculating required minimum distributions, permitting you to defer the tax bill for as long as 15 years.

**5** Because QLACs insure against running out of money in old-old age, they are often referred to as longevity insurance—insurance against living too long.

**6** The fastest-growing age group in America are those age 90 and older.

**7** For a 65-year-old couple, there's a 45% chance that either the husband or wife will live to at least 90.

**8** If a 65-year-old man invests \$100,000 in an immediate-pay annuity, he could get checks of \$550 a month starting right away. The same investment in a life-only QLAC with an income start date of age 85 would pay more than six times as much: \$3,575 a month.

**9** A return-of-premium rider can guarantee that if you don't collect at least as much as you paid for your QLAC, 100% of the difference will go to your heirs.

