

employee plans news

PROTECTING RETIREMENT BENEFITS THROUGH EDUCATING CUSTOMERS

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Lifetime Annuity Guidance Highlights

The Lifetime Annuity Guidance phone forum on August 28 featured two Employee Plans actuaries, Carol Zimmerman and Larry Isaacs, who discussed guidance designed to encourage lifetime annuity options for retirees. We spoke with Carol about the phone forum and the guidance.

What guidance items did you discuss during the forum?

Carol: We discussed the four pieces of lifetime annuity guidance that were issued in February of this year:

- [Revenue Ruling 2012-3](#) about how the survivor annuity requirements apply to a deferred annuity contract in a defined contribution plan;
- [Revenue Ruling 2012-4](#) on the rules for rollovers from defined contribution plans into defined benefit plans, to purchase additional annuity benefits;
- Proposed regulations ([REG-115809-11](#)) to make it easier for participants to purchase annuities that begin at an advanced age by providing for qualified longevity annuity contracts, or QLACs; and
- Proposed regulations ([REG-110980-10](#)) on partial annuities to make it easier for plan sponsors to allow participants to split a benefit between a lifetime annuity and a lump sum or other form of benefit that is subject to the minimum present value requirements of Internal Revenue Code Section 417(e).

What is the purpose of these four guidance items?

Carol: The overall purpose is to make it easier for plans to offer participants a lifetime annuity option to receive their retirement benefits. A lot of retirement plan participants have difficulty managing their retirement savings so that they have enough income throughout their lifetime. It is a challenge to know how much they can withdraw from their retirement savings each year. Too many people focus only on life expectancy without realizing that this is just an average number of retirement years, and that they have a 50-50 chance of living longer than their life expectancy. Furthermore, in the current economic environment, investments have not been earning as much as retirees may have counted on when they retired. Having the ability to receive retirement benefits as an annuity with a lifetime guarantee provides retirees with additional security and the peace of mind that comes with it.

Are there certain issues plan sponsors should be aware of about the revenue rulings?

Carol: Yes. As I discussed during the forum, the fact pattern in Revenue Ruling 2012-4 was not meant to restrict rollovers between qualified plans otherwise allowed by IRC Sections 402 and 408. The fact pattern was limited only to allow us to focus on the key holding of the revenue ruling and not dilute the message by dealing with side issues that could arise in other scenarios.

Since the forum, we have received a number of questions asking whether Revenue Ruling 2012-4 applies to floor-offset plans that allow participants to roll defined contribution accounts into the plan to eliminate the offset. The revenue ruling does indeed apply in this situation, and so the amount added by the rollover may not exactly match the amount of the offset, unless the offset is calculated using assumptions that are consistent with Revenue Ruling 2012-4.

Revenue Ruling 2012-3 clarifies the rules concerning annuities offered in a defined contribution plan, with the hope that more plan sponsors would offer an annuity option if it were easier to administer. We also pointed out that Revenue Ruling 2012-3 doesn't address situations in which annuity payments may be modified after they have begun.

Have you received many comments on the proposed regulations?

Carol: Yes, we did receive many comments on the proposed regulations and discussed a few of them during the forum. For example, some people felt that the proposed \$100,000 limit on a QLAC was too low, requested that variable contracts (annuities that pay dividends) should also qualify as QLACs, and suggested a program for plans to correct QLAC mistakes.

Again, we will review every comment before finalizing the proposed regulations. The forum transcript and handout are available on our [phone forum Web page](#).