

Retirement Security Needs Lifetime Pay Act

Overview

The Retirement Security Needs Lifetime Pay Act contains three provisions to encourage retirees to receive some of their retirement savings in the form of guaranteed lifetime income payments. The bill (1) excludes from income a portion of lifetime income payments received from IRAs, qualified retirement plans (other than defined benefit plans), and non-qualified annuities; (2) excludes the value of longevity insurance from amounts subject to required minimum distributions (RMDs); and (3) clarifies the taxation of payments from deferred annuity contracts that are partially annuitized.

Tax Exclusion for Lifetime Income Payments

- **Eligible Payments** – The exclusion applies only to annuity payments that are guaranteed to continue for as long as the annuitant (or joint annuitant, if any) is alive. The annuity can include various flexible features, including a minimum number or amount of payments, as long as it maintains the key feature of a guaranteed lifetime income.
- **Exclusion Amounts** –
 - In the case of non-qualified annuities, 50% of the otherwise taxable portion of lifetime income payments are excludible from income, subject to a maximum annual exclusion of \$10,000 per tax return.
 - In the case of qualified plans and IRAs, 25% of the otherwise taxable portion of lifetime income payments are excludible from income, subject to a maximum annual exclusion of \$5,000 for an individual return and \$10,000 for a joint return.
- **Retirement Security for Life Act** – The bill's lifetime annuity provisions are the same as those in the Retirement Security for Life Act from the 110th Congress *except* (1) life annuity payments from IRAs and qualified plans are now covered, and (2) the annual exclusion for non-qualified annuities is now limited to \$10,000 rather than \$20,000.

Longevity Insurance

Longevity insurance is an affordable way to protect individuals against running out of income if they live longer than a typical lifetime. It is essentially a life annuity that does not begin to make payments until late in life and typically has no cash value. The bill encourages its use by providing that the value of longevity insurance held in an IRA or a qualified plan is not treated as an amount subject to RMDs. (This provision was not included in the Retirement Security for Life Act.)

Partial Annuitization of Deferred Annuities

The bill clarifies that annuity payments from partially annuitized contracts receive the same tax treatment as other annuity payments. This will make it easier for individuals to generate guaranteed retirement income in increments as it is needed. (This provision was not included in the Retirement Security for Life Act.)