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Treasury Issues Final Rules Regarding Longevity Annuities



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Rules provide for greater security by giving American families more flexibility to plan for retirement and protect themselves from outliving their savings

On July 1, 2014, the U.S. Department of the Treasury and the Internal Revenue Service issued final rules regarding longevity annuities, which can help retirees manage their savings and ensure they have a stream of regular income throughout their advanced years. These regulations make longevity annuities accessible to the 401(k) and IRA markets, expanding the availability of retirement income options as an increasing number of Americans reach retirement age.

“All Americans deserve security in their later years and need effective tools to make the most of their hard-earned savings,” said J. Mark Iwry, Senior Advisor to the Secretary of the Treasury and Deputy Assistant Secretary for Retirement and Health Policy. “As boomers approach retirement and life expectancies increase, longevity income annuities can be an important option to help Americans plan for retirement and ensure they have a regular stream of income for as long as they live.”

A longevity annuity is an income stream – a type of “deferred income annuity” – that begins at an advanced age and continues

throughout the individual's life. This can provide a cost-effective solution for retirees willing to use part of their savings to protect against outliving the rest of their assets, and can also help them avoid overcompensating by unnecessarily limiting their spending in retirement.

The final rules make longevity annuities accessible to 401(k)s and other employer-sponsored individual account plans and IRAs by amending the required minimum distribution regulations so that longevity annuity payments will not need to begin prematurely in order to comply with those regulations. This change will make it easier for retirees to consider using lifetime income options: instead of having to devote all of their account balance to annuities, retirees who wish to follow a combination strategy that uses a portion of their savings to purchase guaranteed income for life while retaining other savings in more liquid or flexible investments will be able to do so.

The final rules expand upon proposed rules on longevity annuities that the Treasury Department issued previously as part of a broader coordinated effort with the Department of Labor to encourage lifetime income and enhance retirement security. The rules follow an extensive consultation process involving organizations and individuals across the public and private sectors. The rules are largely consistent with the proposed regulations, but respond to public comments by expanding the permitted longevity annuities in several respects, including –

- **Increasing the maximum permitted investment:** Under the final rules, a 401(k) or similar plan, or IRA, may permit plan participants to use up to 25 percent of their account balance or (if less) \$125,000 (up from \$100,000 in the proposed regulations) to purchase a qualifying longevity annuity without concern about noncompliance with the age 70 1/2 minimum distribution

requirements. The dollar limit will be adjusted for cost-of-living increases more frequently than under the proposed rules (in \$10,000 increments instead of the \$25,000 increments under the proposed rules for adjustment of the previous \$100,000 limit).

- **Allowing “return of premium” death benefit:** Under the final rules, a longevity annuity in a plan or IRA can provide that, if purchasing retirees die before (or after) the age when the annuity begins, the premiums they paid but have not yet received as annuity payments, will be returned to their accounts. This option may appeal to individuals seeking peace of mind that if they die before receiving the annuity, their initial investment can go to their heirs. The proposed regulations had permitted a life annuity payable to a designated beneficiary after the annuity owner’s death, but not this type of “return of premium” upon death.
- **Protecting individuals against accidental payment of longevity annuity premiums exceeding the limits:** The final rules permit individuals who inadvertently exceed the 25 percent or \$125,000 limits on premium payments to correct the excess without disqualifying the annuity purchase.
- **Providing more flexibility in issuing longevity annuities:** The proposed regulations provided that a contract is not a qualifying longevity annuity contract unless it states, when issued, that it is intended to be one. In response to comments, the final rules facilitate the issuance of longevity annuities by allowing the alternatives of including such a statement in an insurance certificate, rider, or endorsement relating to a contract.

For the final regulations, click [here](#).



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Who We Are

Torrillo & Associates, LLC specializes in employee benefit plan audits including 401k audits, 403b audits, pension plan audits, and other retirement plan audits. We are licensed in 10 states including Pennsylvania, New Jersey, Delaware, New York and Florida. We are also able to practice in additional states that have passed firm mobility.

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