Principal® Deferred Income Annuity

Principal®

Help ensure you have income long after you retire

Good news — Americans are living longer than ever. That also means your retirement savings has to last longer. By taking the right steps now, you can create an income plan that helps you prepare for an extended retirement. You may consider purchasing a qualifying longevity annuity contract, or QLAC.

What's a QLAC?

A QLAC is a type of deferred income annuity, allowing you to put money aside to create a guaranteed stream of income in the future. QLACs are specifically designed to help if you are required to take distributions from your qualifying assets, but don't yet need the income.

Retirement and RMDs

If you have qualified assets, you're probably aware that you'll likely need to start taking required minimum distributions (RMDs) from those assets when you turn 72. This allows the IRS to collect taxes on that deferred income. But you can use a portion of your qualified assets to purchase a QLAC and delay RMDs on that money up to age 85. This accomplishes a couple of things. Because the money put into a QLAC is not included in your RMD calculation, it can lower your immediate tax burden. It then provides a guaranteed stream of income in your later years, when you're more likely to need it. Few qualified investment options offer this opportunity.

Top 3 reasons to consider a QLAC

1. **Defer distributions and decrease current RMDs**
2. **Reduce taxes now**
3. **Create future lifetime income that can enhance financial security later in life**

What does this mean for me and my retirement?

If you have eligible IRA assets (all IRAs except Roth and Inherited IRAs), you can purchase a Principal® Deferred Income Annuity as a QLAC up through age 82. You can defer taking income from your QLAC until the first day of the month following the month you reach age 85. It's important to understand your premium is purchasing future guaranteed income for life. In exchange, you will not be able to withdraw any funds prior to receiving income payments.

How much can I contribute to a QLAC?

Contribution limits can be configured two different ways, and you must use the lesser of the two.

Total QLAC premiums are limited to the lesser of:

25% of your total eligible IRA values, as of 12/31 of the previous year.[1]

or

$135,000

These premium limits could be adjusted by the IRS over time.

[1] The dollar limit applies across all qualified retirement plans and IRAs collectively. The percentage limit applies to each qualified plan separately and to IRAs (excluding Roth and Inherited IRA) on an aggregate basis. There are restrictions on how premium limit rules can be applied. There are also restrictions on how qualified plan assets can roll over to a QLAC. It's your responsibility to ensure QLAC premium limitations are met. Roth IRAs cannot be treated as a QLAC.

Below are two hypothetical examples that show when the dollar amount limit would apply, and when the percentage limit would apply.

If total eligible IRA values are **$400,000**.*

- Percentage limit = $400,000 x **25% = $100,000**
- Dollar limit = **$135,000**
- **$100,000** < **$135,000**
- Since the percentage amount is less than the dollar limit, up to $100,000 can be contributed to a QLAC.

If total eligible IRA values are **$700,000.***

- Percentage limit = $700,000 x **25% = $175,000**
- Dollar limit = **$135,000**
- **$135,000** < **$175,000**
- Since the dollar limit is less than the percentage amount, up to $135,000 can be contributed to a QLAC.

* As of December 31 of the previous year.

QLAC in action

Let's take a closer look at a hypothetical example that shows the tax advantages of deferring income now, and the income advantages of using that money later in your retirement.

- Joe is **68 years old** and has a total of **$540,000** in IRA assets.
- He's in the **32% tax bracket**.

Joe doesn't need income from his RMDs and would like to avoid paying taxes on them. He's also interested in creating future guaranteed income to offset the unexpected expenses and issues that might occur because of a longer life span.

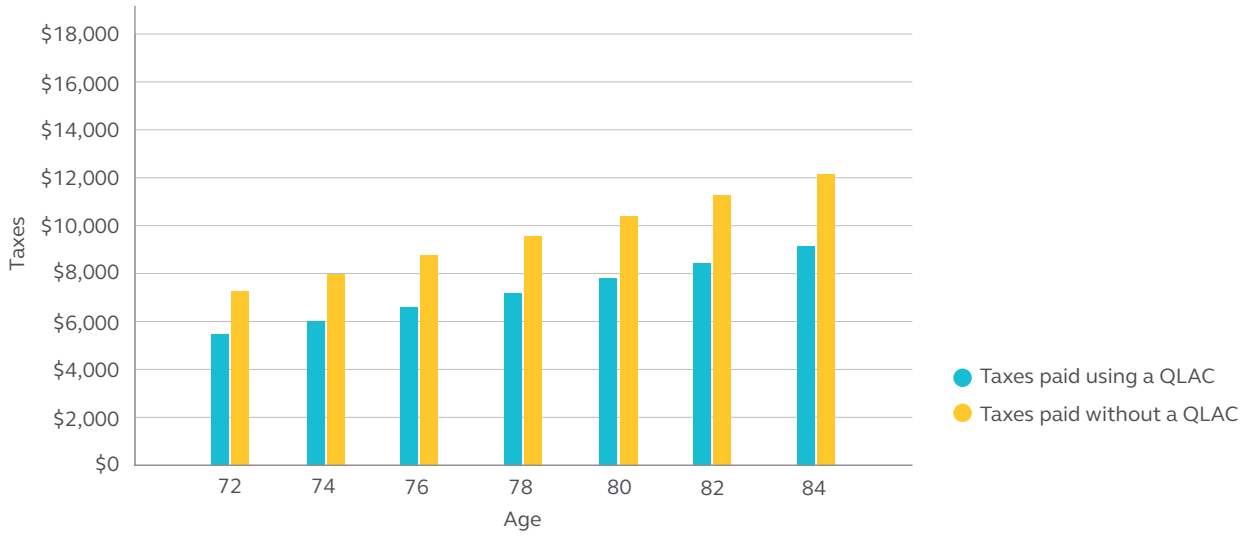
Joe and his financial professional decide on the following strategy:

- Using money from his IRA assets, he purchases a **$135,000 QLAC** and makes no additional purchase payments.
- His **remaining IRA assets total $405,000**.
- He **begins taking RMDs at age 72** as required for IRA assets not in the QLAC.
- His **QLAC income payments start at age 85**.
- For the purposes of this example, we're assuming that Joe's IRA account value has been growing at an annual rate of 5% since age 68.

Let's see what happens.

A QLAC can help reduce the RMD tax burden.

- **By putting a portion of his IRA money into a QLAC, Joe can delay paying taxes on the amount he deferred.**
- **If he puts money in a QLAC at age 68, and doesn't take a withdrawal until he turns 85, his total tax savings over those years will be $33,561.**

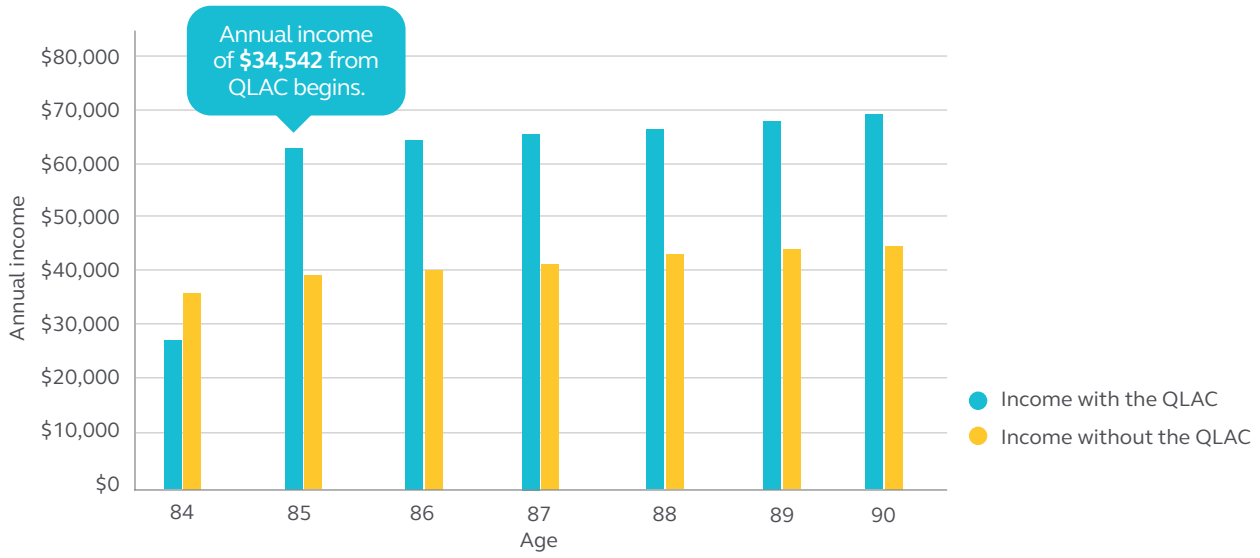


	QLAC strategy $135,000 QLAC and $405,000 IRA at 5% growth			Non-QLAC strategy $540,000 IRA at 5% growth		Annual tax savings $
Age	IRA RMD income	QLAC income	Taxes	IRA RMD income	Taxes	
68-71	$0	0	$0	$0	$0	$0
72	$18,314	0	$5,860	$24,419	$7,814	$1,954
73	$19,189	0	$6,140	$25,585	$8,187	$2,047
74	$20,104	0	$6,433	$26,805	$8,578	$2,145
75	$21,061	0	$6,740	$28,081	$8,986	$2,246
76	$22,061	0	$7,060	$29,415	$9,413	$2,353
77	$22,998	0	$7,359	$30,664	$9,812	$2,453
78	$24,085	0	$7,707	$32,114	$10,276	$2,569
79	$25,092	0	$8,029	$33,456	$10,706	$2,677
80	$26,132	0	$8,362	$34,843	$11,150	$2,788
81	$27,205	0	$8,706	$36,273	$11,607	$2,901
82	$28,311	0	$9,059	$37,748	$12,079	$3,020
83	$29,448	0	$9,423	$39,265	$12,565	$3,142
84	$30,617	0	$9,797	$40,822	$13,063	$3,266
						$33,561

These charts assume an annual growth rate of 5% and 32% tax bracket. For illustrative purposes only.

A QLAC can create additional guaranteed income later in life.

- **Once Joe turns 85, he must begin taking distributions from his QLAC. This income is guaranteed for as long as Joe lives, and substantially increases his annual income in the later years of his life.**
- **His QLAC provides Joe with $34,542 each year from age 85 on. The chart below shows Joe's RMD income at age 84, and his combined RMD and QLAC income beginning at age 85.**



QLAC strategy $135,000 QLAC and $405,000 IRA at 5% growth					Non-QLAC strategy $540,000 IRA at 5% growth		Annual difference in income
Age	IRA RMD income	QLAC income	Total income	Taxes	RMD income	Taxes	
85 (QLAC income begins)	$31,599	$34,542	$66,141	$21,165	$42,133	$13,482	$24,008
86	$32,586	$34,542	$67,128	$21,481	$43,447	$13,903	$23,681
87	$33,570	$34,542	$68,112	$21,796	$44,761	$14,323	$23,351
88	$34,548	$34,542	$69,090	$22,109	$46,065	$14,741	$23,025
89	$35,513	$34,542	$70,055	$22,418	$47,351	$15,152	$22,704
90	$36,136	$34,542	$70,678	$22,617	$48,181	$15,418	$22,497
							139,266

These charts assume an annual growth rate of 5% and 32% tax bracket. For illustrative purposes only.

Income options

Two income options are available with the Principal Deferred Income Annuity as a QLAC:

- **Life only**
- **Life with cash refund**

Choose either single or joint payout options. Joint annuitants must be spouses. The surviving joint annuitant will also be treated as the primary beneficiary. Any other beneficiary designation on record will be treated as a contingent beneficiary.

What happens when you die?

Think of a QLAC as a type of income insurance for your longevity. But it's understandable to be concerned about losing that money if you die before using any of the income. Especially if you have loved ones you'd rather leave it to.

If you die before income payments begin, a return of premium death benefit will be paid to your beneficiary(ies). If income payments have started, the death benefit will depend on the income option selected and other factors. Please consult with your financial professional about your options.

If you purchase a joint life contract, your surviving spouse will continue the contract.

A few other things you should know

- **Premiums used to purchase a QLAC guarantee you a future income stream.** But you won't have access to that money once premiums are paid. You need to have additional sources of income available for short-term expenses.

- **You can roll over funds from a qualified retirement plan directly into a QLAC.** The transfer, however, can't exceed 25% of your total eligible IRA values at the end of the previous year. If you don't have an IRA with a prior year-end balance, you cannot roll over directly into a QLAC.

- **If you've already started taking RMDs from an IRA, you can still roll over money into a QLAC.** Just make sure QLAC premium limits are met. You may be required to take your RMD from your IRA for the current year prior to rolling into a QLAC.

- **If an excess premium occurs, it's your responsibility to take corrective action.** Corrections must be made by 12/31 of the year following the year the excess premium occurred.

- **Inflation protection riders on our deferred income annuity are not currently available if purchased as a QLAC.**

Next steps

Act now to help address unexpected expenses later in retirement. If you think a QLAC may be a beneficial part of your overall retirement plan, contact your financial professional to discuss if it's a good fit for you.

Not FDIC or NCUA Insured
May lose value • Not a deposit • No bank or credit union guarantee Not insured by any federal government agency

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