

Guaranteed Retirement Income: Combining Annuities with Your IRA Strategy

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Explore the benefits of using annuities within traditional and Roth IRAs to generate guaranteed lifetime income. Learn about tax-free Roth annuities, QLACs for RMD deferral, and how these strategies can enhance your retirement security.

By Ken Nuss

Securing a steady income is crucial for a successful retirement. Social Security, pensions, annuities, IRAs, Roth IRAs and 401(k) plans all exist to provide retirees with necessary assets and/or income.

One good strategy, which is underused, is to buy a lifetime income annuity. This lets you convert a portion of your savings into a guaranteed stream of lifetime income—your private pension. You can use either nonqualified money (that’s not in a qualified retirement plan) or funds from a traditional IRA or Roth IRA.

This article focuses on using an income annuity with a traditional IRA or a Roth IRA. Both approaches offer tax advantages and each has its pros and cons.

Annuities can guarantee lifetime income

With [lifetime annuities](#), people who live longer than average are subsidized by people who die earlier than average. This feature lets the annuity offer “longevity insurance.” That’s a big advantage: you secure a stream of income that lasts as long as you (and optionally, your spouse) live, even if it’s well past 100. Studies have shown that people with guaranteed income are more confident and relaxed about retirement.

But if you (and your spouse) are in poor health and unlikely to live past the average, a lifetime annuity may not be the best choice. Additionally, an income annuity typically has no cash surrender value. Once you buy one, you usually have no access to the money until

the payments begin.

You can, however, choose a cash-refund annuity. That way, the beneficiary will get any amount left over if the person who bought the annuity dies before getting back everything they paid in premiums. The cost is usually a bit higher for the same income benefit.

Roth IRA annuity offers tax-free income

With a Roth IRA, you don't get tax deductions for contributions, but once your money is in the Roth, you can take it out or pass it on to your heirs income-tax-free as long as you follow a few simple rules.

With a Roth income annuity, you can get guaranteed tax-free income for life. I know of no other way to accomplish that.

You can purchase a Roth annuity via a tax-free rollover from an existing Roth IRA to an insurance company. The insurer then sets up the Roth annuity and guarantees a stream of income. You get to choose how long the payments will last—for instance, 20 years—but most people choose the [lifetime option](#).

If you need the income right away, you can choose an immediate annuity. You can receive your first payment as soon as one month after your immediate annuity contract is issued.

If you don't need current income, a deferred income annuity may be a better choice. Here, your payments will begin at a future date you choose. By deferring payments, you let the insurer credit more interest over the years on your behalf, and you'll ultimately get more monthly income.

For instance, by delaying lifetime annuity payments from age 65 to 75, you'll get about 80% to 130% more each month, depending on the payout options chosen. Of course, you and/or your spouse won't receive the deferred payments as long. The earlier you buy the annuity, the bigger the future payments (assuming the same income-start date).

If you're married, the joint-income option lets your surviving spouse receive regular monthly income payments for the rest of his or her life. Payments to a surviving spouse are also tax-free with a Roth IRA.

You must wait at least five years after your first Roth contribution or conversion before making withdrawals or taking income payments; otherwise, taxes will apply. This rule applies to all Roth IRAs, including inherited accounts.

QLAC annuity offers guaranteed income plus RMD tax deferral

You're not required to take money out of a Roth, but you must start taking required minimum distributions (RMDs) from your traditional IRA, 401(k) plan or other qualified retirement plan when you reach age 73. RMDs are taxable income.

The only feasible way to defer some RMDs is to transfer a portion of your retirement plan assets to a qualified longevity annuity contract (QLAC). The money in a QLAC is excluded from plan assets on which RMDs are calculated.

A type of deferred lifetime income annuity that meets IRS requirements, a QLAC lets you keep more of your retirement plan intact and tax-deferred longer. In 2025, you can place up to \$210,000 in a QLAC IRA. You must start taking income payments from a QLAC at 85 but may begin sooner.

Purchasing a [QLAC](#) involves transferring funds from your traditional IRA, 401(k) or other eligible retirement plan to a life insurer which sets up a separate QLAC IRA for you.

Lifetime guaranteed income reduces financial risk

Many people run the risk of running out of money if they live to a ripe old age. A QLAC reduces that risk because the payments, just like a traditional pension plan, are guaranteed to continue at the same level no matter how long you live.

QLACs have an accumulation phase where interest earnings are held and reinvested by the insurance company, and a payout phase, also called annuitization. Future income is guaranteed. You'll know what the guaranteed payout will be before depositing your funds.

You choose when to start receiving a stream of monthly lifetime income. The income will be fully taxable then, but you'll have gained years of valuable tax deferral.

You don't have to invest \$210,000 all at once. You could start with, say, \$100,000 in one QLAC and place \$110,000 in a second QLAC later on. You could stagger the income start dates, with the first QLAC paying out when you reach age 80 and the second one starting at age 85, for example.

Additionally, you may be in a lower tax bracket in your 80s than when you first retire.

Delaying RMDs isn't the only benefit. You'll create a larger stream of income you can't outlive. You can buy a QLAC at any age. The earlier you buy a QLAC, the longer you get to build up principal and the bigger payout you'll ultimately receive.

Because you'll have a new source of future guaranteed income, you may be comfortable taking more market risk with other assets in your plans and potentially getting higher

returns.

Payout Options

As with any deferred income annuity, you're no longer in control of the principal with a QLAC. You've deposited it with an insurer in exchange for a contract for future income.

You can choose an individual or a joint lifetime payout, with the latter paying out income until the second spouse dies. The joint payee must be a spouse under IRS death-transfer rules. Most married individuals choose the joint option so that their spouse will still get lifetime payments if they predeceased him or her.

With the cash-refund option, beneficiaries will get a lump-sum payout for any of the initial deposit premium not yet paid out at the death of the annuitant(s). Most insurers reduce future monthly payments if you choose this option.

Shop for the best deal

QLACs are offered by many life insurers. The market is competitive and payouts and contract provisions vary considerably.

If you consider products from only one or two insurers, it's unlikely you'll get the best deal. An annuity agency that offers products from many insurance companies should give you expert advice and help you make an apples-to-apples comparison.

The agency earns a commission, but it's paid by the insurance company, not the buyer. All of your deposit goes to work for you immediately.

QLACs aren't for everyone. If you need all of your RMDs for current living expenses, you won't be able to afford to defer any. But many retirees can benefit from this product that's designed to give you a bigger future stream of income for your life and, optionally, the life of your spouse.

QLACs and Roth income annuities each have their advantages and drawbacks. Since you're counting on the insurer to fulfill its contractual promises for many years, select a financially strong carrier. A.M. Best and other rating agencies rate insurers' financial strength. I recommend choosing one with at least an A- A.M. Best rating for this purpose.

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Ken Nuss is the founder and CEO of [AnnuityAdvantage](https://www.annuityadvantage.com), a leading online provider of fixed-rate, fixed-indexed, and lifetime income annuities. Ken is a nationally recognized annuity expert and widely published author. A free rate comparison service with interest rates from dozens of insurers is available at <https://www.annuityadvantage.com> or by calling (800)

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