

3.4 Deferred Annuity



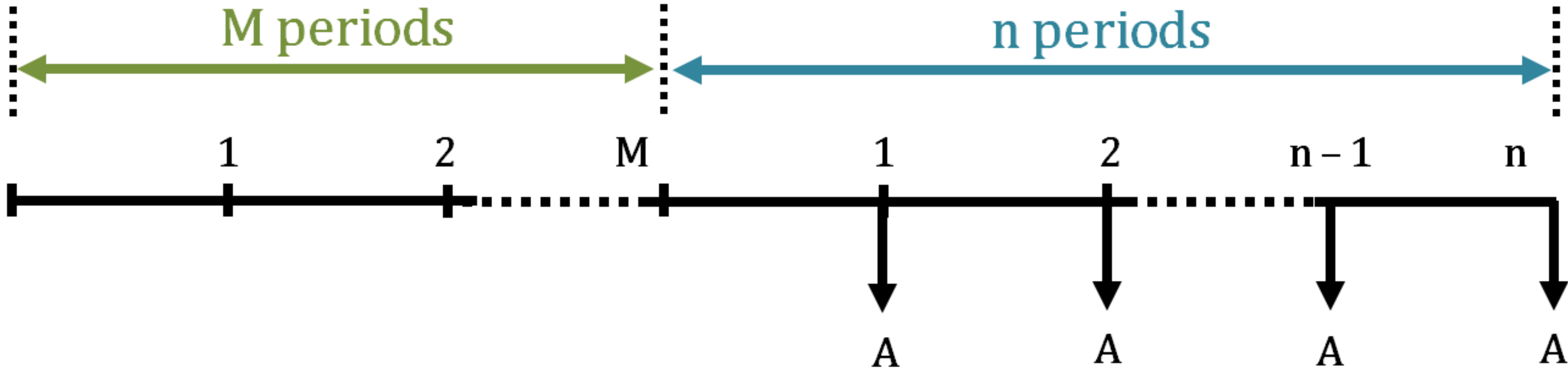
Intended Learning Outcome

At the end of the lesson, the student shall be able to:

1. Apply formulas/equations in deferred annuity to solve word problems.

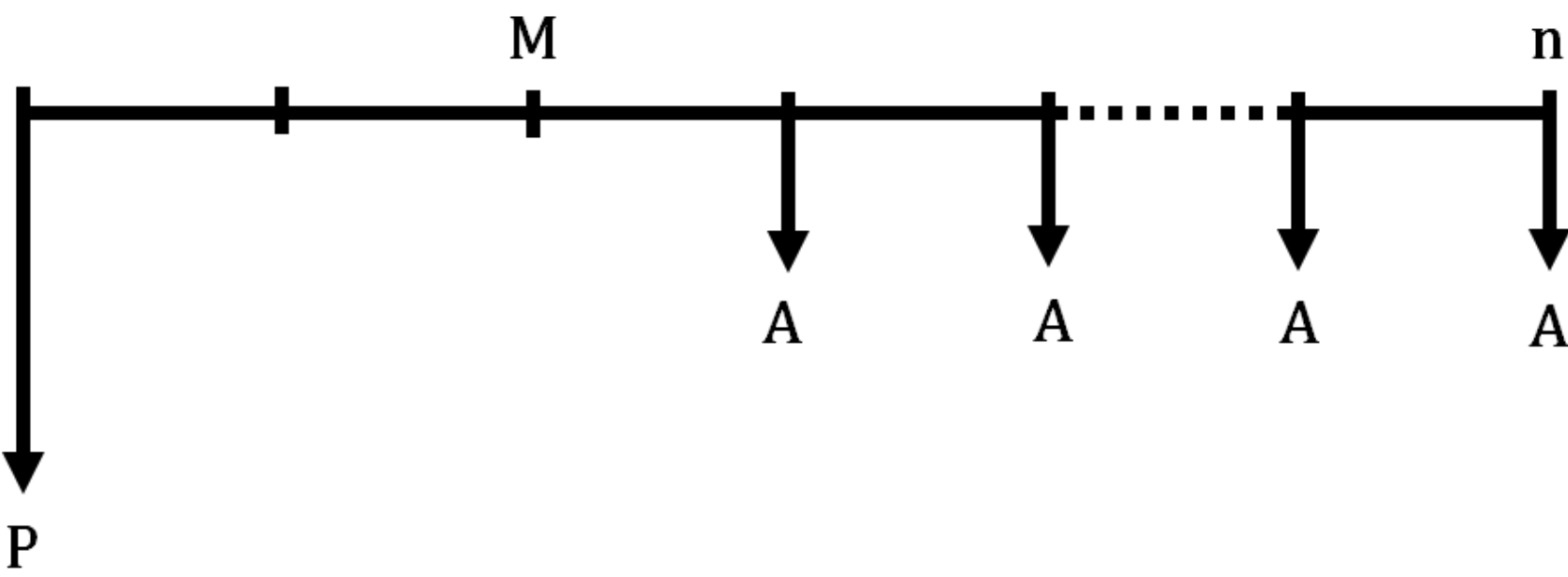
DEFERRED ANNUITY

- A deferred annuity is one where the first payment is made several periods after the beginning of the annuity.
- A deferred annuity is a long-term investment in which you invest a sum of money, then receive payments several years down the line after the initial sum has accrued interest.



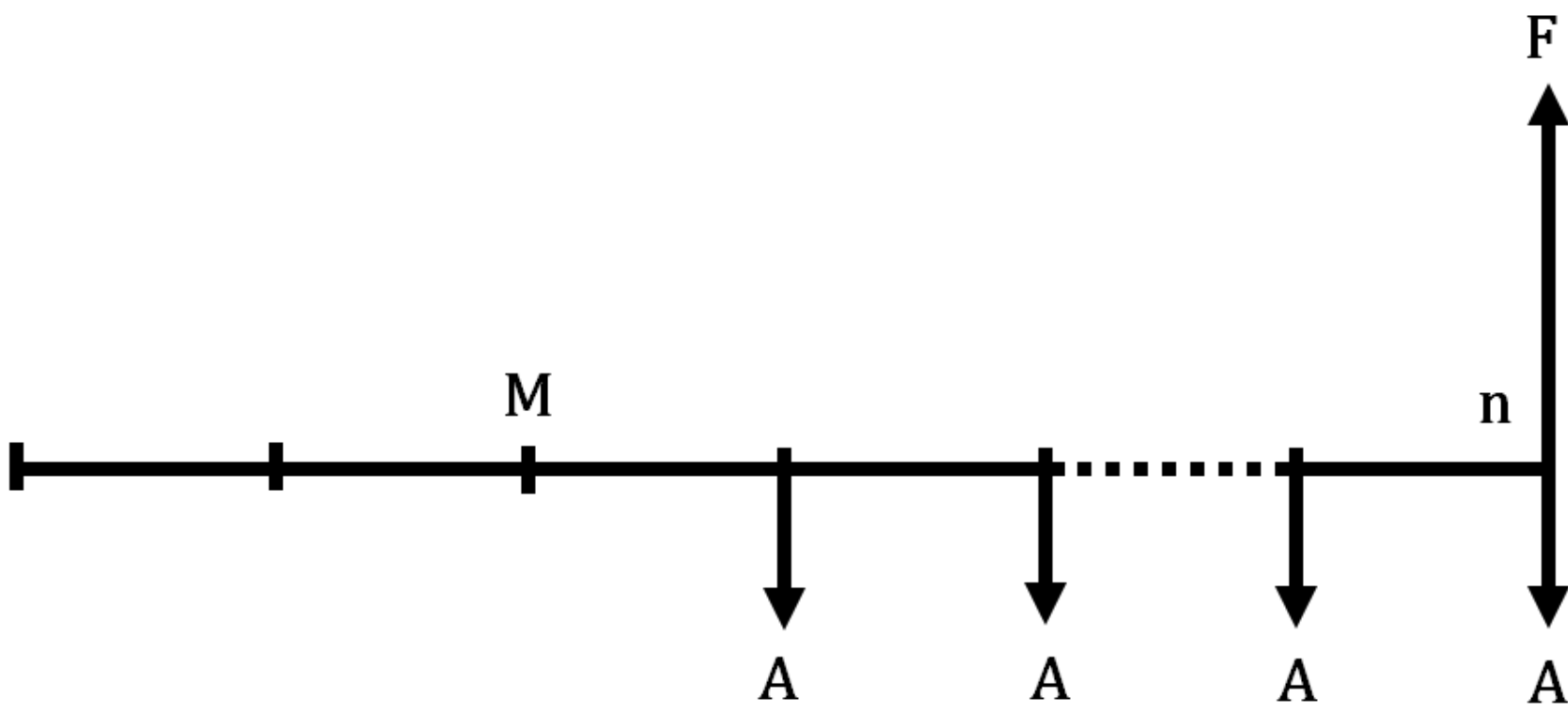
Cash Flow Diagram of Deferred Annuity

PRESENT WORTH OF DEFERRED ANNUITY



$$P = A \left[\frac{1-(1+i)^{-n}}{i} \right] (1+i)^{-M}$$

FUTURE WORTH OF DEFERRED ANNUITY



$$F = A \left[\frac{(1+i)^n-1}{i} \right]$$

Reference: Engineering Economics by Hipolito Sta. Maria



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