

BASIC PRINCIPLES OF FINANCIAL VALUATION DISCOUNTING

Examples and Applications: Annuities

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ANNUITIES

Series of equal payments at regular intervals.

- ▶ Regular deposits to savings account
- ▶ Monthly mortgage payments
- ▶ Insurance premiums
- ▶ Pension payments

RETIREMENT ANNUITY EXAMPLE

Problem: You want to retire and maintain a monthly income of \$2,500 for the next 20 years. How much would it cost to purchase this annuity if discount rates are currently 4%?