Title:
Annuities Q&A: Understanding Types Of Annuities

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Summary:
What types of annuities are available?

There are basically two types of annuities — fixed and variable.

A fixed annuity earns an assured interest rate in a definite period of time. If the period of times expires, there will be a new interest rate for the next period.

Variable annuities have more funding options than fixed annuities since their performance depends on the option of investment of the principal and return vary.

What is a tax-deferred annuity?

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What is a tax-deferred annuity?

Tax-deferred annuity allows you to not pay taxes until after you make a withdrawal or until you start receiving an annuity. Having a tax-deferred annuity permits you to collect a bigger amount of money over an extended period of time.

What is the difference between a fixed and variable annuity?

Fixed annuities are investments from government securities and corporate bonds. They are offered a fixed or guaranteed rate usually over a period of one to ten years. So, when you receive payments, the monthly release of funds is set to a fixed amount and already guaranteed. This type of investment is preferred by investors who value safety and stability of their money and for those retirees who want their money to be protected against the possible instabilities of the stock market.

Variable annuities allow you to put your investment into a variety of securities like money market securities and interest accounts offering fixed rates. Stock market performance will decide the annuity’s value and the return of your money that you have invested. Though there is a great risk because of unprecedented movement of stocks in the market, some still consider investing in a variable annuity because they are comfortable of fluctuations in the market and get rid of their investment in static position.

What are deferred and immediate annuities?

A deferred annuity is a pay-out plan offered to investors who are willing to receive payments at some later date, commonly at the retirement of the investor. This type of pay-out is advantageous for long-term retirement plans for the following reasons:

• Deferred income taxes payment until withdrawal of the money
• No limits on yearly annuity contributions
• Death benefits are readily available. If the investor dies before he collects his annuity, the beneficiaries get the amount you have put in plus investments earnings.

In an immediate annuity, the investor automatically begins to receive lump sum pay-outs immediately upon investing your money. Payments start usually a month after you have invested into the annuity. This offers financial security in a sense that you will receive income payments for the rest of your life. Also, this annuity permits you to:

• Add your pay-outs received in your current income
• Pay taxes on the portion of the annuity payments that are considered to be

earning

Immediate annuities can be fixed or variable. Fixed immediate annuity payments are attached to the amount that you have contributed, your age, and the existing interest rate at the time you have purchased the annuity. These said payments are already fixed. Variable immediate annuities vary according to the type of investments you purchased.

What is a tax-sheltered annuity?

Tax-sheltered annuity is a retirement savings program limited to public educational institution employees and members of non-profit organizations. Contributions to a tax-sheltered annuity are made by the employers of the participating employee. These are deducted from the participant’s income payments and sent to the insurance agency or mutual fund guardian elected by the participant.

What is a lifetime annuity?

A lifetime annuity is a type of immediate annuity wherein upon investing you automatically receive guaranteed income payments for the rest of your life. The income you will receive from the lifetime annuity plan will depend on the amount of money you will invest and the existing rates at the time you made the investment.