

Title:

What Is An Annuity?

Word Count:

349

Summary:

An annuity is a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are most often bought for future retirement income. Only an annuity can pay an income that can be guaranteed to last as long as you live.

Keywords:

annuity, income

Article Body:

An annuity is a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are most often bought for future retirement income. Only an annuity can pay an income that can be guaranteed to last as long as you live.

The word annuity is a Latin word. You can find it in the oldest dictionary you have. Annuity means income. An annuity is neither a life insurance nor health insurance policy. It is not a savings account or savings certificate. You should not buy an annuity to reach short term financial goals. There are several different types of annuities. The word 'annuity' of course means income. The word 'deferred' means income later. The word 'immediate' means income now. There are two types of annuities, fixed and variable. The word 'fixed' doesn't necessarily mean your interest is fixed, it means your premium earns a minimum guaranteed interest rate. Variable, which involves risk means the dollars (your premium), you put into a variable annuity can vary up and down.

There are two parts to a fixed deferred guaranteed income annuity, a current interest rate and a minimum guaranteed interest rate. The minimum guaranteed interest rate is the lowest rate that your annuity will earn. This rate is stated in the contract. The current rate is linked to the reserves and interest the company earns on their portfolio, or for an external reference or index. You can buy a fixed deferred annuity and start your interest income thirty days

later. However, it is better to wait twelve months, and then take the previous years earned interest through the second year.

With an IRA, you can put your individual retirement account inside of a fixed annuity, the only vehicle that can provide a guaranteed retirement income to last you as long as you live. Insurance companies are required by law to have reserves that back up the guarantee.

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