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What is an annuity?
An annuity is an alternative to traditional investment vehicles.
When you purchase this insurance-based contract, you basically trade current premiums for a future income stream.
An annuity can help protect against the risk of living too long because it provides an option for lifetime income.
An annuity also offers tax-deferred accumulation.
And with fixed annuities, not only do you earn a competitive rate or return, but you may also pay less in current taxes.
Let's take a closer look at how annuities work.
There are two basic types of annuities — deferred and immediate.
Each type is used for distinctly different purposes.
A deferred annuity is designed for long-term accumulation.
People buy one because they want their money to grow and provide an income stream when they retire.
An immediate annuity, on the other hand, is designed to provide income right away.
Each type of annuity can be used to meet a variety of needs and objectives.
As its name implies, a deferred annuity postpones income to some future date.
The premiums you pay for a fixed annuity accumulate and earn interest during the accumulation phase.
You determine the amount and frequency of your premiums and the time when the payouts will begin, usually in retirement.
The annuity accumulates tax deferred.
The earnings credited to your annuity are not taxed until they are withdrawn.
When you do begin receiving regular income from your annuity, during the payout phase, the payments will reflect the added value from this tax-deferred growth.
An immediate annuity, on the other hand, provides current income.
Once you pay the premium, you are entitled to receive regular income, which is guaranteed by the issuing insurance company.
Immediate annuities provide a way to use your wealth to secure regular income.
Payments can be made monthly, quarterly, annually, or semi-annually for your entire life or for a guaranteed period of time that you specify.
This strategy may be appropriate for people who are getting ready to retire and who need to reallocate their savings and investments for greater income.
They may also be appropriate for people who are receiving a retirement plan distribution, a gift or inheritance, or any other large payment from which they want to receive a regular income stream immediately.
Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force.
Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity.
Withdrawals of annuity earnings are taxed as ordinary income.
Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty.

Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company.
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