What are deferred and immediate annuities?

Financial Planning

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Deferred annuity

This type of annuity is good for long-term retirement planning for the following reasons:

- Payments on income taxes are deferred until you withdraw the money.
- Unlike a 401(k) or an IRA, there are no limits on your annual annuity contributions.

- There is a death benefit. If you die before collecting on the annuity, your heirs get the amount you contributed, plus investment earnings, minus whatever cash withdrawals you made.

Immediate annuity

This allows you to convert a lump sum of money into an annuity so that you can immediately receive income. Payments generally start about a month after you purchase the annuity. This type of annuity offers financial security in the form of income payments for the rest of your life. In other words, you cannot outlive it.

Immediate annuities allow you to:

- Supplement your current income. If you are nearing retirement, you may consider transferring another savings or investment account into an immediate annuity. You can also move the proceeds from a deferred annuity into an immediate annuity.
- Pay taxes only on the portion of your immediate annuity payments that is considered earnings. You are not taxed on the portion that is principal. The principal is the initial deposit made with funds that have already been taxed.

Like deferred annuities, immediate annuities can be fixed or variable. Fixed immediate annuity income payments are pegged to the amount you contribute, your age and the interest rate at the time of purchase. Those payments to you will not go up or down. Variable immediate annuity payments vary with the investments you chose.

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