

What Is an Annuity?

An annuity is a long-term savings plan that can be used to accumulate assets on a tax-deferred basis for retirement and/or to convert retirement assets into a stream of income, in effect creating your own personal "pension" plan.

While both are insurance contracts, an annuity is the opposite of life insurance:

- **Life insurance** provides financial protection against the risk of dying prematurely.
- **An annuity** provides financial protection against the risk of living too long and being without income during retirement.

What Are the Different Types of Annuities?

There are two basic types of annuities, depending on whether you need to accumulate assets for retirement or whether you're at or near retirement and interested in creating a lifetime retirement income:

Deferred Annuities

A deferred annuity has two distinct phases: the accumulation phase and the income phase.

- **During the accumulation phase**, you contribute premiums to the annuity, where they accumulate on a tax-deferred basis until needed for income purposes.
- **During the income phase**, the value of the annuity is converted into income payments.

Immediate Income Annuities

An immediate income annuity is purchased with a single premium and **income payments begin immediately** or shortly after the premium is paid.