Immediate or Income Annuities

An annuity is a contract, purchased from a life insurance company, that provides for a set stream of payments or income for a set length of time, usually until the death of the annuity holder.

The concept of an annuity can be confusing because life insurance companies use the term to describe two different types of contracts: deferred annuities and immediate annuities.

Deferred annuities allow investors to put away money on a tax-deferred basis so that a lump sum can be accumulated at a later date; that lump sum can then be used to fund an annuity (the stream of payments), although many investors choose to simply withdraw the accumulated amount as a lump sum rather than use the annuity feature.

An immediate annuity has no accumulation period—an investor simply pays the insurance company a lump sum, and then receives the stream of payments for the set time period.

Annuities are primarily used as a means of securing a steady cash flow during retirement.

Read more »