Buying an Annuity

6 Steps to Buying an Annuity

1. **Understand the Contract and Costs**
   - Review the contract and understand the costs involved.

2. **Consider the Benefits and Features**
   - Consider the benefits and features that are important to you.

3. **Read the Sales Literature**
   - Read the sales literature to understand the terms and conditions.

4. **Compare Annuity Options**
   - Compare different annuity options to find the best one for you.

5. **Fill Out the Application**
   - Fill out the application and submit it to your provider.

6. **Receive Your Payments**
   - Receive your payments and start receiving income.

Reasons to Buy an Annuity

- **Guaranteed Income**
- **Death Benefit**
- **Income Tax Deferral**
- **Principal Protection**
- **Guaranteed Growth**

How Are Annuities Taxed?

- Annuites are treated as an investment that grows tax-deferred, meaning you won't owe taxes until you start receiving payments.
- The fixed interest rate and earnings are taxed as income when you receive payments.

How Do You Calculate Annual Payments?

- The annual payment amount is calculated by subtracting the purchase price from the initial amount invested.
- The payment amount is then divided by the remaining number of years to determine the annual payment.

Estimated Monthly Payments for a $100,000 Annuity

- **Principal ($100,000)**
- **Annual Interest Rate (4%)**
- **Number of Years (20)**

Estimated Monthly Payment = $505.88

Payoff Annuity Formula:

PMT = PMT = \frac{PV \times r \times (1 - (1 + r)^{-n})}{1 - (1 + r)^{-n}}

Where:
- P = Principal
- PMT = Monthly Payment Amount
- I = Annual Interest Rate
- n = Number of Years
- A = Amount of Annuity Payment
- P = Number of Payments

Learn about Annuities: Visit the Federal Retirement Information Center for investment guidance.