Annuities

An annuity is a contract between you and an insurance company that is designed to meet retirement and other long-range goals, under which you make a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to you beginning immediately or at some future date.

Annuities typically offer tax-deferred growth of earnings and may include a death benefit that will pay your beneficiary a specified minimum amount, such as your total purchase payments. While tax is deferred on earnings growth, when withdrawals are taken from the annuity, gains are taxed at ordinary income rates, and not capital gains rates. If you withdraw your money early from an annuity, you may pay substantial surrender charges to the insurance company, as well as tax penalties.

There are generally three types of annuities — fixed, indexed, and variable. In a fixed annuity, the insurance company agrees to pay you no less than a specified rate of interest during the time that your account is growing. The insurance company also agrees that the periodic payments will be a specified amount per dollar in your account. These periodic payments may last for a definite period, such as 20 years, or an indefinite period, such as your lifetime or the lifetime of you and your spouse.

In an indexed annuity (https://www.investor.gov/additional-resources/news-alerts/investor-bulletin-indexed-annuities) , the insurance company credits you with a return that is based on changes in an index, such as the S&P 500 Composite Stock Price Index.

In a variable annuity (/additional-resources/general-resources/glossary/variable-annuities) , you can choose to invest your purchase payments from among a range of different investment options, typically mutual funds. The rate of return on your purchase payments, and the amount of the periodic payments you eventually receive, will vary depending on the performance of the investment options you have selected.

Variable annuities are securities regulated by the SEC. An indexed annuity may or may not be a security; however, most indexed annuities are not registered with the SEC. Fixed annuities are not securities and are not regulated by the SEC. You can learn more about variable annuities by reading our Updated Investor Bulletin: Variable Annuities

(/additional-resources/news-alerts/alerts-bulletins/updated-investor-bulletin-variable-annuities) .

Learn more (/introduction-investing/basics/investment-products/annuities)