Deferred vs. immediate annuities
Immediate annuities are usually purchased with a single payment, and you receive payments beginning in one month to one year.

Deferred annuities can be a great way to accumulate money for retirement because they let your money grow tax-deferred. You can put money into a deferred annuity with a single payment or flexible payments. There is generally a federal penalty if you withdraw income on a deferred annuity before age 59 1/2. What’s more, your insurer may impose its own penalty, also known as a surrender fee.

If the tax-deferred aspect of a deferred annuity is important to you, make sure the expenses don’t outweigh the tax benefits. Consult a tax adviser for assistance.

When you are ready to start withdrawing money from your deferred annuity, you will need to choose how to receive your money. You can withdraw it in a lump sum, as needed or in a steady stream of payments, called “annuitizing.” If you annuitize, you can receive income that is guaranteed to continue for the rest of your life, no matter how long you live. And the tax liability can be spread out for the rest of your life, too. Some of the earnings are included in each payment and are taxable. Meanwhile, tax-deferred earnings continue to accumulate on the remaining principle and earnings that have not yet been distributed.
**Fixed annuities**

Fixed annuities earn a guaranteed rate of interest for a specific time period, such as one, three or five years. Once the guarantee period is over, a new interest rate is set for the next period. This guarantee of both interest and principal makes fixed annuities similar to certificates of deposit (CDs) from a bank, but annuities aren’t insured by the Federal Deposit Insurance Corporation (FDIC). An annuity’s security is related to the financial health of the insurance company that issues the annuity.

An index annuity is a special type of fixed annuity. The amount of interest credited on an index annuity depends on the growth of the underlying index. The most common type of index annuity is the equity-indexed annuity. The Standard & Poor’s 500 Index is the most commonly used index. Equity-indexed annuities provide a potentially attractive return and a guaranteed minimum return.

**Variable annuities**

Variable annuities typically offer a range of investment or funding options. These options may include stocks, bonds, and money market instruments. The return on variable annuities can increase or decrease.

Your principal and the return you earn are not guaranteed - they depend on the performance of the underlying investment options. If the investment options you choose for your annuity perform well, they may exceed the inflation rate or fixed annuity returns. If they don’t, you may lose not only prior earnings, but even some of your principal.

Many variable annuities offer some guaranteed benefits, such as guaranteed death benefits and guaranteed living benefits. Guaranteed minimum living benefits include income benefits, accumulation benefits and withdrawal benefits.

Some variable annuities offer, in addition to a range of investment options, a fixed account option that guarantees both principal and interest, much like a fixed annuity. This gives you the option of dividing your money among the low-risk fixed option and higher-risk vehicles, such as stocks, all under the umbrella of one annuity. Many variable annuities have programs to help you decide where to invest your assets.

Variable annuities purchased with after-tax dollars allow you to transfer money from one account to another without triggering a taxable event. In other words, if you transfer money to a different funding option within your variable annuity (say stocks to bonds), you won’t have to pay taxes on any earnings. Tax-free switching lets you re-allocate money to suit changing market conditions and your changing investment goals.

**Annuity expenses**

Fixed annuities usually have fewer features and lower fees than variable annuities. With fixed annuities, most contract expenses are taken into consideration when the company declares periodic interest rates or determines the payment amount. Surrender charges may apply.

Variable annuity fees are more complicated. They may include an annual contract charge that covers administrative expenses, surrender fees and a mortality and expense risk charge. Variable annuities charge this latter fee to guarantee the death benefit, the availability of payout options and the level of expenses. In addition, a variable annuity has fees for the management and operating expenses of the funding options in which your money is invested.

Index annuities may have higher fees than a fixed annuity.