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Different Types Of Annuities

Annuities can be a valuable investment if you choose the right type of policy. They can provide you with a source of income in the future that you don't have to work for. Typically, an annuity is defined as a type of financial investment which pays out a dividend after a period of time. There are several different types of annuities which you may consider at different points in your life.

Saving for the Future with Retirement Annuities

Retirement annuities are some of the more common types of annuities. Pension plans often incorporate retirement annuities. The benefit of a retirement annuity is that when you retire, you are still effectively earning a salary. The difference is that you no longer need to work for it. Rather, it is paid out from your annuity investment. How a retirement annuity works is that while you are working, you will invest money on a monthly basis in a policy. When the time comes for you to retire, the policy matures and you get a monthly annuity in lieu of a salary. The only drawback to retirement annuities is that many people forget to factor in the time value of money. This means that even if you invest what you think will be enough to cover your monthly expenses, with the rising cost of living it may not be enough to meet your financial needs in 20 or 30 years. Choosing a retirement annuity therefore requires careful consideration and this is where a broker or financial advisor can offer valuable advice.

Fixed Annuities Are a Stable Investment

In terms of investments, fixed annuities are some of the simplest types. With a fixed annuity, you choose a period of time for your policy; it could be 10, 20 or 30 years. For the duration of the investment, you will pay a monthly premium into the policy. On your investment, you will usually earn a fixed amount of interest per annum. When the policy matures, you will receive an annuity that is a guaranteed amount. While it is beneficial to know exactly how much you will be earning, the disadvantage is that you will not benefit from market gains. Also if you have not invested sufficient funds, the annuity you receive may well fall short of meeting your financial needs when the policy matures.

Taking Advantage of the Markets with Variable Annuities

If you want to seek out the best possible interest rate and take advantage of the markets when they are strong then you may want to consider a variable annuity type of investment. While the premium you may pay in on the monthly basis may be the same, the interest rate you receive may change over time. Often, you can also increase your contributions if you want to add more value to your investment. The payout you receive from a variable annuity will be directly linked to the performance of the investment and the current markets. If the markets are buoyant then your investment will grow favorably compared to a fixed annuity investment; however, if the markets crash you could end up losing money on your investment. You therefore need to invest wisely when choosing variable annuities.

What to Consider When Looking at Annuities

Never rush into an annuity investment. Always consult with a reputable financial advisor and consider various policies and options available to you. Take your time to understand more about each type of policy and consider which one will suit you at your current point in life. For a young executive in his 20s, this is the ideal time to start investing. It could be in a retirement annuity or some other form of annuity. It doesn't really matter which. What is important is that you will be building a nest egg for your future. People in their 30s or 40s will probably have to invest larger amounts into a policy to make it work for them. Even so, you will still be saving towards your future. Read up on the options available to you. For resource material, you can turn to financial magazines and newspapers. Online you will also be able to find some valuable resources. Often, financial advisors publish special reports about certain type of investments. No matter where you live, there are probably only a handful of reputable financial institutions. Do your homework and find out about the financial security of a company before you invest with them.

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