What is an annuity contract?

An annuity contract is a financial instrument where a premium is paid to a company (or in some cases to an individual) in return for a promise to pay a certain amount for either a specific period of time or over a person’s lifetime. There are different variations of this basic form. An immediate annuity contract is one in which regular annuity payments will commence within one year. A deferred annuity contract is one in which the annuity start date (i.e., the date when regular annuity income payments begin) is deferred until the contract’s owner elects to start payments; payments can be deferred for many years, and in today's world many annuity owners simply maintain the contract in deferred status. Nonqualified annuities are annuities that are not held within a “qualified” retirement plan or an IRA.

The term “annuity” includes all periodic payments resulting from the systematic liquidation of a principal sum and refers not only to payments for a life or lives, but also to installment payments that do not involve life contingency, such as payments under a “fixed period” or a “fixed amount” settlement option.[[1]](#footnote-1)

1. . Treas. Regs. §1.72-1(b), §1.72-2(b). [↑](#footnote-ref-1)