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Every industry has its own language, and it’s no different for retirement planning. Understanding this sometimes confusing language is crucial as you begin making financial decisions that will impact your lifestyle once your working years are over. As you begin looking into annuities, make sure you take some time to understand the most commonly used terms. By doing so, you can ensure that your retirement will be the “golden years” you’ve been dreaming of.

Here are some of the most important retirement words, defined:

**Annuity –** A contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are often bought for future retirement income. Only an annuity can pay an income that can be guaranteed to last as long as you live. Your money grows tax-deferred as long as you leave it in the annuity.

**Annuitant(s) –** The person taking out an annuity.

**Compounding Interest –** Interest paid both on the original amount of money and on the interest it has already earned.

**Simple Interest –** Interest paid only on the original amount of money and not on the interest it has already earned.

**Defined Benefit Plans** – A type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee’s earnings history, tenure of service and age, rather than depending directly on individual investment returns. The plan provides lifetime income through a group or individual annuity contract.

**Fixed Annuity –** An insurance contract in which the insurance company makes fixed dollar payments to the annuitant for the term of the contract, usually until the annuitant dies. The insurance company guarantees both earnings and principal.

**Fixed Indexed Annuity (FIA)–** An fixed annuity on which credited interest is based upon the performance of an index, such as the S&P 500. The principal is protected from losses in the equity market, while gains add to the annuity’s returns. Interest is not based on pre-declared rate of interest, typical of traditional fixed annuities.

**Guaranteed Lifetime Withdrawal Benefit (GLWB)/Income Rider –** An optional benefit that can be attached to an annuity contract that, will provide a lifetime income stream that can be turned on in the future. Some income riders grow at a contractually guaranteed rate that will compound during the deferral years for future lifetime income.

**Guarantee Period –** An option to ensure that a minimum number of year’s payments are made by the annuity, even if you die. The maximum guarantee period is 10 years. If you die during the guarantee period, the annuity will continue to make income payments until the end of the selected guarantee period or you could select that the remaining payments are paid as a lump sum (this option is not permitted where the guarantee period is 10 years).

**Immediate Annuity –** An annuity purchased with a single premium on which income payments begin within one year of the contract date. With fixed immediate annuities, the payment is based on a specified interest rate. With variable immediate annuities, payments are based on the value of the underlying investments. Payments are made for the life of the annuitant(s), for a specified period, or both (e.g., 10 years certain and life).

**Longevity Risk –** The risk of outliving one’s assets.

**Lump-Sum Distribution –** The distribution at retirement of a participant’s entire account balance within one calendar year due to retirement, death or disability.

**Lump-Sum Option –**A withdrawal option in which the annuity is surrendered and all assets are withdrawn in a single payment.

**Principal –** An amount of money that is loaned, borrowed or invested, apart from any additional money such as interest.

**Purchase Price** – The amount that is used to buy the annuity. If the whole of your pot has been paid to the annuity provider and they are paying a pension commencement lump sum (PCLS) to you, the purchase price does not include the PCLS.

**Refinancing –** Revising a payment schedule, usually to reduce monthly payments. A common way to do this is to reduce the interest rate on a mortgage.

**Surrender Charge –** A type of sales charge you must pay if you sell or withdraw money from a variable annuity during the “surrender period”—a set period of time that typically lasts six to eight years after you purchase the annuity.

**Tax Deferred –** An investment which accumulates earnings that are not subject to taxes until the investor takes possession of the earnings, often at a point at which the investor is in a lower tax bracket than before, such as retirement.

**Variable Annuity –** An insurance company contract into which the buyer makes a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments beginning immediately or at some future date. Purchase payments are directed to a range of investment options, which may be mutual funds, or directly into the separate account of the insurance company that manages the portfolios. The value of the account during accumulation, and the income payments after annuitization vary, depending on the performance of the investment options chosen.

**Vesting –** Reaching the point, through length of service, at which an employee acquires the right to receive employer-contributed benefits such as pensions.

- See more at: <http://indexedannuitiesinsights.com/blog/#sthash.zcmCivfm.dpuf>