

The Concept of Annuity

55



You pay \$ 50,000
each year for 10
years.

65



You collect \$
60,000 each year
after your
retirement.

80

* Assume 3%
inflation rate

- It seems like you get a bargain, but actually the insurance company is playing with time value(aka inflation).
- The \$60,000 you get in ten years only worth $60,000 / (1 + 0.03)^{10} = \$44,645$ at present.
- The lower the inflation rate insurance company uses, the better the deal.