Tip Sheet: Summary
Business Math Series

ANNUITY AND ITS TYPES

• An **annuity** is a series of payments (usually of equal size) made at periodic intervals.

• The length of time between the successive payments is called the **payment interval** or **payment period**.

• The length of time from the beginning of the first payment interval to the end of the last payment interval is the **term of an annuity**.

• Size of each of the regular payments is the **periodic rent**.

• **Types of annuities:**
  o **By length of conversion period:**
    ➢ **Simple annuity**: Length of conversion period = Length of payment interval
    ➢ **General annuity**: Length of conversion period ≠ Length of payment interval
  o **By date of payment:**
    ➢ **Ordinary annuity**: If payments are made at the end of each payment period (interval).
    ➢ **Annuity due**: If the payments are made at the beginning of each payment period (interval).
    ➢ **Deferred annuity**: If the first payment is delayed for a period of time.
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- **By term:**
  - **Annuity certain:** If both the beginning and end date of an annuity is known or the annuity has a fixed term.
  - **Contingent annuity:** If either the beginning or end date or both is unknown.
  - **Perpetuity:** If payments continue forever.