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Annuities and TVM

Total Value of Money TVM is used for estimating the money that an individual will receive in future. The purpose of TVM is to delay the current use of money and invest it for gaining more value. The investor assumes that on keeping money in the bank he will receive a higher value to the interest rate added by the bank. TVM offers more utility to the consumer in future. The potential gain of the customer will increase with the interest rate. To calculate TVM the individual must consider the prevent and future value of the money. A simple example can be used for understanding the concept of TVM. If a person invests $10,000 at 10% interest rate, the money received in the future is $11,000. This indicates that the value of money has increased over time.

Annuity is used for raising the value of money in future and is used by the people who are reaching their age of retirement. Retirees use annuity for securing their assets for a longer time period. They aim at securing their cash flow by postposing use of money in current period. Annuities are financial products that increases the wroth for money for the future time period. Annuities can be fixed or variable the former ones require fixed periodic payments. However, the payments are not fixed in variable annuities and they can be changed. This adds to the convenience of the retirees because they can choose flexible periodic payments. The analysis also depicts that payments are made for accumulating a future balance. The future value of annuity is based on interest rate of the bank that is known as a compound interest rate. The present value of stream equalizes with the cash flow.