Higher Gains & Fewer Strings: Annuities vs. CDs

Higher Gains with Fewer Strings: Annuities Beat CDs Hands Down!
For years, bank Certificates of Deposit (CDs) have been attracting investors who want to save for their retirement, luring them with the security of FDIC insurance and the promise of locked-in rates of return. CDs have gotten a lot of attention, but there are products out there now that offer better returns, on average, than CDs, with the potential for even greater returns: **annuities**. Since the Fed cut interest rates to their lowest levels in over 40 years, annuities are pulling far ahead of CDs in helping people meet their retirement savings goals.

CDs have some very real limitations, and those shortcomings become even more apparent when they're compared with annuity products. Here are some key points every prospective CD buyer should consider:

• **Inflation**.....Yields on CDs have been lower than the rate of inflation in one out of every five years. After subtracting taxes and the rate of inflation, the return on any given CD has been negative about 50% of the time. Annuity products – whether fixed-rate, variable, or equity-indexed – consistently trump the inflation rate and provide highly-competitive rates of return.

• **Returns**.....In 2002, real returns on CDs, after taxes and inflation, fell into negative numbers according to the Federal Reserve Board. Unfortunately, a reliance on CDs to fund your retirement plan could result in a 40% shortfall at retirement age and require you to work after age 65.

• **Taxes**.....The interest earned from a CD is subject to federal and state income taxes whether you use the income or let it accumulate. Annuities, on the other hand, accumulate returns tax deferred. This means the money you would have paid in taxes during the accumulation phase of a CD, keeps working for you in an annuity. And this can drastically reduce the time needed to reach your retirement goals.

• **Liquidity**.....The bank is not required to give you access to your CD principal during the term of the CD and may prevent you from making early withdrawals. Some annuities offer riders which allow you to access some or all of your funds in the event of life-threatening illness, a prolonged stay in a nursing home, or other vital life changes that impact you economically.

• **Risk**.....Although CDs are FDIC insured, in the event of a bank failure, you may encounter delays with the FDIC returning your CD principal. Annuities are insurance products underwritten, in many cases, by some of the largest insurance companies in the world. Ratings and financial holdings of these companies are public information.

CDs (Certificates of Deposit)	**Annuities**
• Low return on investment	• Higher return than CDs
• Taxed earnings on Interest	• Tax-deferred earnings
• Predictable return	• Predictable return
• Penalty for early withdrawal	• Some annuities make cash available
• Insured by the U.S. Government	• Guaranteed by the largest insurance companies in the world

Annuities offer other enhancements and perks that leave CDs in the dust. Equity-indexed annuities, for example, are linked to an index such as the Dow Jones or S&P 500 and participate in the growth of those markets without putting any principal at risk from potential down ticks in the market. If you are concerned that your retirement savings goals may be falling behind, give me a call and we can talk about how annuities can, based on your particular needs, give you peace of mind.

** IRS regulations exclude a percentage of the return representing your original investment in the annuity which is the premium paid. After an amount equal to your original annuity premium has been received in cumulative annuity payments, the entire monthly income will be taxable for federal income tax purposes.*