CD’s vs Fixed Deferred Annuities

For those who are concerned that their CD’s do not pay sufficient income and who are concerned that the income they make is taxed by the U.S. Government, a deferred annuity is an option to consider.

Things to Consider

- Accounts in CD’s insured by the FDIC are generally limited to $250,000. Annuities are not insured by the FDIC.
- Penalties apply on early withdrawals for CDs and Annuities.
- For CD’s, the use of joint ownership may avoid probate and state law may allow for a beneficiary designation that avoids probate. Interest earnings on a CD held in an IRA or other retirement account may be subject to tax-deferral.

CD's vs Fixed Deferred Annuities

Differences Between CD's and Tax-Deferred Annuities	CD	Annuity
Will this product provide safety of principal?	Yes	Yes
Access to principal? (Subject to surrender charges.)[1]	Yes	Yes
Does the entire principal remain unreduced by commissions?	Yes	Yes
Will the product provide tax deferred growth?[2]	No	Yes
Does the product provide for flexible contributions?	No	Yes
Will this product avoid the costs and delays associated with probate?[3]	No	Yes
Can earnings on the product be automatically recontributed without being currently taxed?	No	Yes
Can the product provide guaranteed lifetime income without the principal first being taxed?	No	Yes
Can the product provide social security advantages by reducing taxable income that would make social security taxable?	No	Yes
Can the product provide potentially higher yields?	No	Yes

1) Penalties apply on early withdrawals. For annuities significant charges apply during the Surrender Charge Period, which may last for several years. Some annuities offer free withdrawals if the withdrawal does not exceed 10% of the contract value each year. A 10% federal income tax penalty may apply for withdrawals before age 59½. 2) Income and growth on accumulated cash values are deferred until withdrawn. 3). For CD's, the use of joint ownership may avoid probate and state law may allow for a beneficiary designation that avoids probate. Proceeds of insurance contracts paid to a named beneficiary are generally not probate assets; check with your tax advisor. Current U.S. tax laws provide that earnings from an annuity are taxable only upon withdrawal as ordinary income. In contrast, interest earnings from a CD may be taxed annually and at rates that vary depending upon the nature of the earnings and the individual's tax bracket. Lower maximum tax rates on capital gains and dividends could make the return for the taxable product more favorable, thereby reducing the difference between a taxable product and a tax deferred product.

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