# Annuities vs CDs


Both annuities and CDs are savings vehicles with better interest rates than regular bank accounts. Once reviewed, however, annuities appear to have advantages for knowledgeable consumers. Your clients' individual financial situation and objectives, as always, is the key.

**This list of the differences between annuities and CDs can help them to be compared against the desired outcomes. Here is a breakdown of the advantages of CDs versus Annuities.**

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# Accumulation

Generally, CDs have short maturity periods, from one month to several years. This makes them a better choice for a short term goal such as a down payment on a home or a car. Your clients' investment horizon is a key factor.

The rate of returns on CDs is guaranteed for its maturity period. That rate depends on the current market rates when purchased on its time frame. Generally, the shorter the time frame, the lower the rate. The rate is not guaranteed if the CD is renewed.

Annuities are for long term investing. They are designed for accumulating money for an income during retirement. Annuities can also be used to protect savings once retirement is reached, or to provide an inheritance.

Annuities offer the ability for rates to rise with the market, while having a guaranteed minimum rate to protect against downturns.

# Benefits of Tax Deferral

The interest on CDs is considered income in the year it is earned. As such, it is subject to income taxes. This is true, whether it is withdrawn or not.

The interest on annuities is deferred until distributions on them is begun. They are typically deferred until retirement. This can be very important in retirement planning, as tax deferment can lower tax liability on Social Security benefits. That means higher monthly benefits for your clients.

# Cash Accessibility

CD rates are locked in for their maturity period. They incur penalties if withdrawn early, whatever the reason. CDs do, however, usually have shorter time frames. If maximum liquidity is desired, then a CD may be the better choice.

Annuities are designed to be for the longer haul. They do not offer the short-term turnaround of CDs. Annuities do, however, offer annual free withdrawals of 10% or more, which can address liquidity needs.

| | Annuities | CERTIFICATES OF DEPOSIT (CDs) |
|---|---|---|
| Loss Protection | Annuities are backed by the company that issued them, with no limitations to amount or styling. | Currently, CDs are insured by the FDIC up to $250,000 per account per institution. |
| Withdrawal Charges | As long term investments, annuities generally have a schedule of declining early withdrawal charges.<br>After a designated period of time, these charges generally reduce to nothing. | As short term investments, CDs generally have preset early withdrawal penalties varying according to their term. The penalty periods restart each time the CD is renewed. |
| Access | Annuities offer free annual withdrawals of at least 10%. Penalty-free early withdrawals may also be possible in emergency situations. | Having shorter time frames, the money in CDs will be accessible sooner. However, CDs offer no early withdrawals without penalties, regardless of circumstances. |
| Effects on Social Security Benefits | Interest on annuities is deferred until payment begins. Therefore, it is not counted toward tax liability on Social Security benefits. | CD interest is counted toward taxation on Social Security benefits the year it is earned. This could lead to higher taxes on monthly benefits. |
| Taxation | Annuities are tax deferred. Their interest income is not reported nor taxed until it is withdrawn. By that point, many clients are in a lower tax bracket due to retirement. | CD interest is reported and taxed the year it is earned. This is true whether any money is withdrawn or not. |

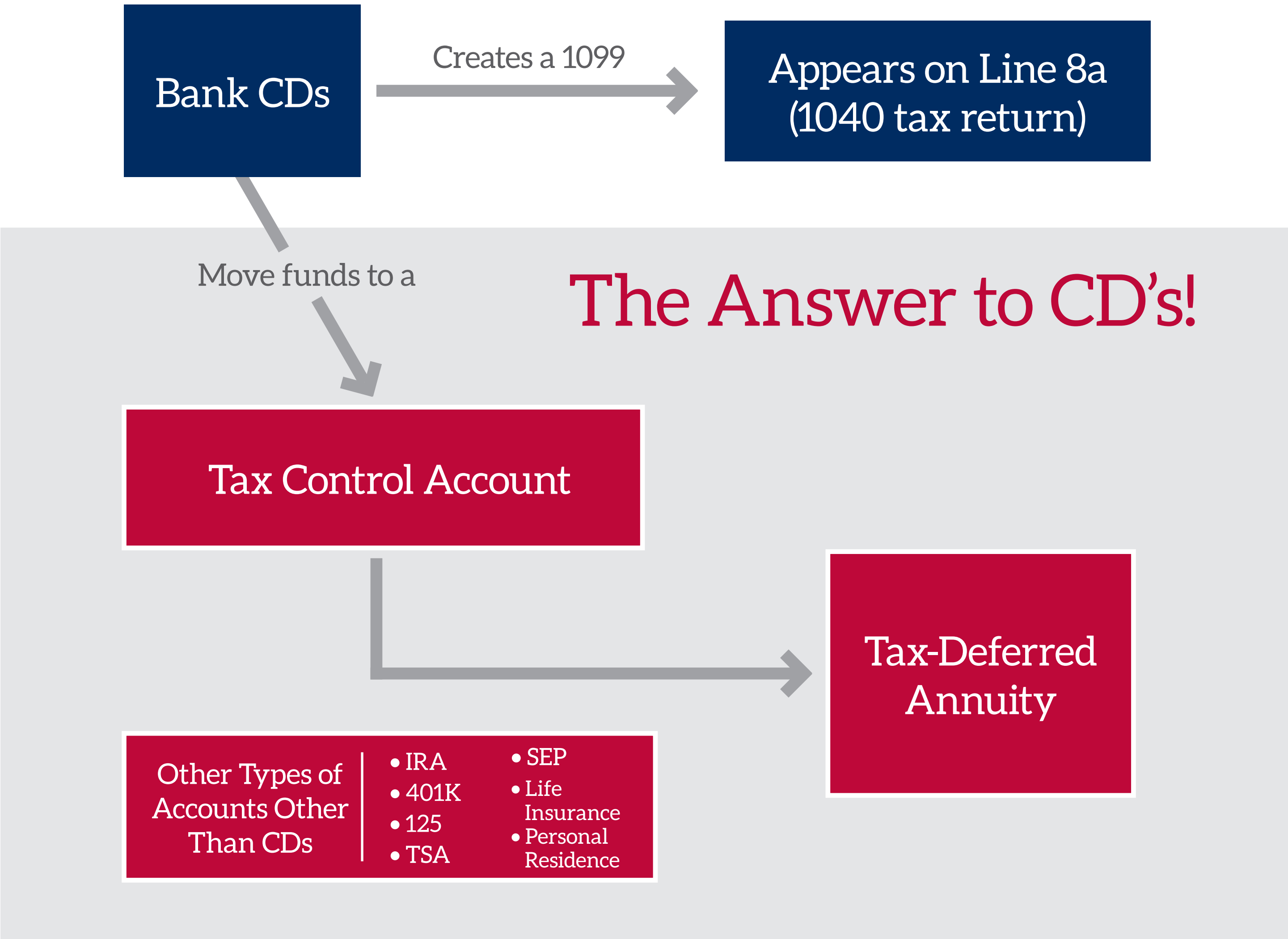
# CD vs. Annuity Comparison Chart
## Overview

| | Annuity | Certificate of Deposit |
|---|---|---|
| Free from principal/market risk and price fluctuations? | Y | Y |
| Interest earnings free from current taxation. | Y | N |
| Interest earnings reinvested automatically with no current income taxation? | Y | N |
| Tax liability on Social Security Income. | Interest income from a tax deferred annuity is not reportable until withdrawn | N |
| Liquid. | Y* | Y* |
| Flexible. | Y | N |
| Penalty free withdrawal? | Y** | N |
| Are they free from probate? | Y | N |
| Taxation on withdrawals? | 10% penalty if withdrawn prior to 59 1/2 | No tax penalty |
| How secured? | By the full faith and credit of the insurance company and by state regulations | FFDIC insured up to $250,000 |

*May be subject to early surrender charges. Certain limitations may apply.
**A portion of funds are available from annuities each year.

# How to Reduce Taxes with a CD Rollover

1. Find the client's 1040 tax return form.
2. Illustrate the following diagram on paper:




*NOTE: This information does not constitute legal or tax advice. This information merely reflects our understanding of current tax regulations. Consumers should discuss this information and consult their personal tax advisor. The information contained is subject to change without notice.*

# Would Your Clients Rather Earn Interest or Pay Taxes?

## The Power of Triple Compounding

Paying taxes is synonymous with earning interest, right? Wrong!

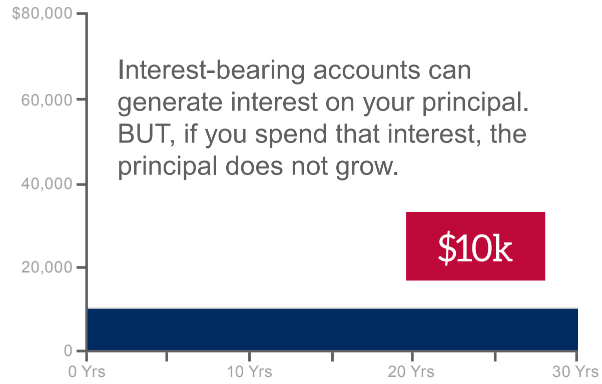
Have you ever had a client say that they were earning interest on their taxes? Probably not! However, I'm sure you've heard it said over and over again that I'm paying taxes on my interest earnings and I'm not even using the money!

How would you like to show your clients how they can stop paying taxes on their interest earnings and start earning interest on their taxes instead? It's easy. It's so simple; you'll wonder how you didn't think of it before. Plus, what a great reason to call a new or old prospect!

Show your clients how to lower Federal and State income taxes as well as reduce the portion that they're being taxed on Social Security Benefits. The secret is triple compounding.

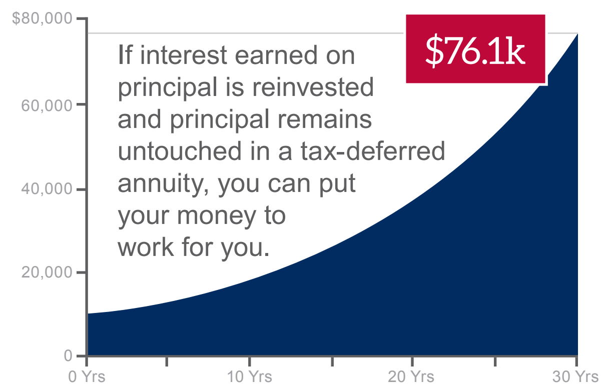
Don't lose interest on a major segment of your money. Use Triple compounding through the Tax-Deferral aspect of annuities to ensure you earn interest on all of your money. Here is how triple compounding works using theoretical numbers from a common example.

### 1. The Interest on Your Principal




### 2. The Interest on Your Interest.[1]


### 3. Interest on Money Not Lost to Taxes.[2]




*An Annuity is a product issued by an insurance company. It is not a deposit or obligation of, nor is it guaranteed by, any bank. It is not insured by the FDIC or any other government agency. Withdrawals may be subject to certain taxes, penalties and charges. This is a hypothetical scenario used for illustration purposes only, and does not reflect the results of any specific investment.*

*1. Assumes a 7% constant yield with a 33% tax rate.*

*2. Assumes a 7% constant yield. Pre-tax returns are shown on this chart and all tax information is provided for illustrated purposes only. Withdrawals made prior to age 59 1/2 may be subject to IRS income tax penalties. Tax laws about tax-deferred products are subject to change. Consult a qualified tax advisor for details concerning your individual tax situation. Information herein is provided by Safe Harbor Financial.*

# CD Questionnaire

Today's Date: ______________________________________________

Full Name: ______________________________________________

Address: ______________________________________________

Phone Number: ______________________________________________

Date of Birth: ______________________________________________

## Your CDs

Date Started: ______________________________________________

Maturity Date: ______________________________________________

Interest Rate: ______________________________________________

Length of CD: ______________________________________________

Penalty for Withdrawal: ______________________________________________

Bank or Financial Institution: ______________________________________________

What is your goal?

[ ] Keep the Principal and Interest in my account

[ ] Keep the Principal in my account and Withdraw Interest

Is the Interest going to be taken: Monthly [ ] Quarterly [ ] or Annually [ ]

Amount of CD(s): $ ____________________

$ ____________________

$ ____________________

Goal for funds: ______________________________________________

Explain: ______________________________________________

______________________________________________

NOTES/COMMENTS: