How Can a Certificate of Deposit Be Used to Provide Retirement Income?

Many retired individuals who are adverse to investment risk elect to generate income from their retirement savings by purchasing bank certificates of deposit (CDs). Here's how this alternative works:

- When you purchase a CD, you invest a fixed sum of money for a fixed period of time, such as six months, one year, five years, or even longer.
- In exchange, the issuing bank pays you interest, typically at fixed intervals. Generally speaking, the longer the term of the CD, the higher the rate of interest it pays.
- The interest earned by a CD is included in your taxable income each year.
- When the CD matures, you receive back the sum of money you originally invested, plus any interest that accrued during the term of the CD.
- You can redeem your CD before it matures, but you may have to pay an early withdrawal penalty.
- CDs feature federal deposit (FDIC) insurance up to $250,000 for each depositor in each bank or thrift institution.

Let's look at a hypothetical example of how the CD alternative works:

**Assumptions:**

<table>
<thead>
<tr>
<th>CD Amount:</th>
<th>$100,000</th>
<th>CD Annual Interest Rate:</th>
<th>3.75%</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD Term:</td>
<td>10 Years</td>
<td>Income Tax Rate:</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Results:**

- Annual Interest Income: $3,750.00
- Income Tax Due: $937.50
- Net After-Tax Annual Income: $2,812.50

**NOTE:** This is a hypothetical illustration only and is not indicative of any particular bank certificate of deposit or performance. It does not reflect any fees associated with a bank certificate of deposit, which would reduce the performance shown in this hypothetical illustration if they were included.
Hypothetical Split Annuity Example

Prepared for: Marketing Financial
Presented by: Advanced Case Design

Fixed Interest Single Premium Immediate Annuity

Assumptions:
Single Premium: $30,000  Term Certain: 10 Years  Income Tax Rate: 25%

Results:
Guaranteed* Annual Annuity Income: $3,717
Tax-Free Return of Principal: - 3,000 (80.7%)
Taxable Portion: $ 717 (19.3%)
Income Tax Due: - 179
Net After-Tax Annual Income: $ 3,538

AND

Fixed Interest Single Premium Deferred Annuity

Assumptions:
Single Premium: $70,000  Guaranteed* Interest Rate: Year 1: 5.10%  Years 2 - 10: 4.10%

Results:
Guaranteed* Value in 10 Years: $105,623

* Guarantees are contingent on the claims-paying ability of the issuing insurance company.

NOTE: This is a hypothetical illustration only and is not indicative of any particular annuity products or annuity performance. It does not reflect any fees or expenses associated with an annuity, which would reduce the performance shown in this hypothetical illustration if they were included. In addition, rates of return above the guaranteed interest rate will vary over time, particularly for long-term investments.
### CD Alternative vs. Split Annuity

**Prepared for:** Marketing Financial  
**Presented by:** Advanced Case Design

<table>
<thead>
<tr>
<th>Bank CD</th>
<th>Split Annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount Invested</td>
<td>$100,000</td>
</tr>
<tr>
<td>25% Assumed Tax Bracket</td>
<td>25%</td>
</tr>
<tr>
<td>$3,750.00</td>
<td>$3,717</td>
</tr>
<tr>
<td>- 937.50</td>
<td>- 179</td>
</tr>
<tr>
<td>$2,812.50</td>
<td>$3,538</td>
</tr>
<tr>
<td>10 Years Income Guaranteed</td>
<td>10</td>
</tr>
<tr>
<td>$28,125 Total After-Tax Income</td>
<td>$35,380</td>
</tr>
<tr>
<td>$100,000 Guaranteed Value in 10 Years</td>
<td>$105,623</td>
</tr>
</tbody>
</table>

- **Yes** (1) FDIC Insured?  
- **No** (2) Avoids Probate?  
- **Yes** (3) Early Surrender Penalty?  
- **No** (4) Tax Advantaged?  
- **No** (5) Potential Loss of Value?  
- **Yes** (6) Additional Growth Potential?

#### Bank CD Assumptions:
- 3.75% CD Annual Interest Rate  
- 10 years CD Term

#### Split Annuity Assumptions:
- Fixed Interest Single Premium Annuity Purchase Price: $30,000  
- Fixed Interest Single Premium Deferred Annuity Purchase Price: $70,000  
- Guaranteed Interest Rate: Year 1: 5.1%  
- Years 2 - 10: 4.1%

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(1) The basic FDIC insurance amount is $250,000 per depositor per insured bank.  
(2) Annuity guarantees are contingent on the claims-paying ability of the issuing insurance company.  
(3) Any annuity proceeds remaining at the annuitant's death pass to the named beneficiary outside of the probate process.  
(4) Fixed interest deferred annuities may pay an interest rate higher than that guaranteed in the contract. Any excess interest payment, however, is not guaranteed beyond the year in which it is paid.