

# How much do CDs and Fixed Annuities Really Cost?

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Certificate of deposits (CD) and fixed annuities are nothing new to seasoned investors, but as rates in the U.S. continue to trend lower, more and more people are beginning to gravitate towards them. For many this can be beneficial, but before diving headfirst into CDs and fixed annuities, investors should first review the pros and cons.

When I speak with retired investors trying to navigate today's low rate environment, I often hear that they buy CDs to protect their lifestyle. Others tell me they bought an annuity because they thought the benefits outweighed the negatives, but only later did they understand the lack of liquidity and income restrictions were impacting their bottom line.

These comments highlight some of the reasons investors are interested in CDs and fixed annuities, but they also highlight some of the risks involved. For example, what will savers and investors do if the U.S. follows many European countries with negative interest rates? This means investors receive no income, and at maturity their investment will receive less than the original amount they invested. When put like that, it seems preposterous anyone would do this, but according to Bloomberg there's currently about \$17 trillion invested with negative rates in Europe and this number continues to grow. So, what is a conservative income investor to do as rates are again hitting historic lows?

## **What are the risks?**

To understand how CDs and fixed annuities might impact you, your portfolio or your lifestyle, here's a few questions to ask yourself first:

- Is it, or will it, lose my hard-earned money I may need to generate future income?
- Will this negatively affect my lifestyle?
- How much of my lifestyle am I willing to give up for peace of mind?

For unsure investors, consider the difference between CDs and fixed annuities and investing in a diversified fixed income portfolio. For example, what if you looked at a combination of U.S. Government and U.S. Government backed agencies and high-quality U.S. company backed fixed income investments in terms of your lifestyle relative to CDs and Fixed, or index annuities? Does this combination change things? Further, ask if it makes sense to even consider adding a conservative slice of ownership in dividend paying common stock.

For example, what if the difference on every \$100,000 invested between CDs/Fixed annuities and a conservative basket of alternatives is a one-week cruise for two people every year? What

if for every \$250,000 the difference is a cruise with a veranda suite, plus two trips to see your family, and a 10-night stay at a nice hotel? The difference could also be the cost of going out for dinner every night to a family restaurant and occasional white table cloth restaurant. What if the difference in income on \$200,000 could cover most of the costs of a car lease, plus gas, insurance and maintenance?

If you have money you think you're not going to use during your lifetime, or if earning even a little more on your savings could make a huge difference on your comfort and happiness, maybe some of your savings should be invested for higher returns using investments appropriate for a conservative long-term investor. Investing involves risk and many factors should be considered before jumping into the fray, including your liquidity needs, your income needs as a percentage of your savings, your tax bracket, net worth, health and life expectancy, so it's better to prepare for negative scenarios ahead of time instead of making a mistake and trying to correct it later.

When in doubt, I recommend you seek the advice of an experienced CERTIFIED FINANCIAL PLANNER® Professional who will act as a fiduciary and always put your best interest first.

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A fixed annuity is a long-term, tax-deferred insurance contract designed for retirement. It allows you to create a fixed stream of income through a process called annuitization and also provides a fixed rate of return based on the terms of the contract. Fixed annuities have limitations. If you decide to take your money out early, you may face fees called surrender charges. Plus, if you're not yet 59½, you may also have to pay an additional 10% tax penalty on top of ordinary income taxes. You should also know that a fixed annuity contains guarantees and protections that are subject to the issuing insurance company's ability to pay for them. Dividends are not guaranteed and must be authorized by the company's board of directors. Individual investor's results will vary. Past performance does not guarantee future results.