

Annuities vs. CD's

Many clients choose CD's because that is what they've always done. Tax deferred annuities offer an exciting alternative for the right client.

Annuities

Certificates of Deposit

Reporting and Taxing of Interest Income

The interest income from a tax-deferred annuity is neither reportable nor taxable until it is withdrawn.

The interest income from a traditional certificate of deposit is both reportable and taxable as it is earned regardless of whether it is received or left to accumulate.

Effect on Social Security Benefits

Interest income from a tax-deferred annuity is not reportable until withdrawn; it is not included in the calculations for Social Security crossover taxation, preserving the value of Social Security benefits.

The interest income from a traditional certificate of deposit is included in the calculations used to determine taxation on Social Security benefits. Both taxable and tax-free earnings are reportable and must be included in this calculation.

Withdrawal Charge Schedule

Generally, tax-deferred annuities are long-term instruments and have no maturity date. Instead, the insurer imposes a schedule of declining early withdrawal charges, which are generally entirely eliminated after a designated period of time.

Traditional certificates of deposit are generally intended for short-term investment and have preset early withdrawal penalties that vary according to term. These penalties are renewed every time the certificate is renewed.

Emergency Access

Depending on the type of annuity selected and its provision, penalty-free withdrawal options may be available to clients so they can access a portion of their funds.

Funds in a certificate of deposit cannot be accessed in full or in part during its term without incurring withdrawal penalties.

Loss Protection

Tax deferred annuities are not FDIC-insured; however, they are backed by the financial strength of the insurer, without federal limitations as to denomination or styling.

Certificates of deposit are insured by the FDIC up to \$100,000 per account, per institution.