Timely insights that you can use.

"An investment in knowledge pays the best interest." Benjamin Franklin

In our modern world there seems to be a never-ending array of financial products from which consumers may choose. Navigating that wide ocean of options can be a daunting task. While recent years have seen many new entrants into this sea of options, two instruments have been around for decades and still represent common considerations for many – certificates of deposit (CDs) and fixed annuities.

Fixed annuities and CDs share many similarities, so consumers need to understand those similarities, where differences exist, and the pros and cons of these similar, yet different financial instruments. The table below offers a consolidated way to look at many different characteristics of each in comparison to each other.

Characteristics	Fixed Annuities	Certificates of Deposit
Issuing Institutions	Insurance Companies	Banks and Credit Unions
Principal Guarantees	Yes, as outlined in the contract and backed by the issuing insurance company's financial reserves.	Yes, up to the statutory limits of the FDIC or NCUA, currently $250,000 per account holder at each institution.
Liquidity	Limited (significant surrender charges may exist for first few years)	Most traditional CDs have modest early withdrawal penalties for a period of time. There are no-penalty CDs.
Penalty-Free Access	Based on contract. Many offer access to as much as 10% of the balance each year without penalty, prior to annuitization. Pre-59 ½ withdrawals may be subject to penalty.	Not typically available for most CDs.
Income Taxation	Earnings are tax-deferred until withdrawn, and then taxed as ordinary income.	Unless CD is inside of a tax-deferred account, such as an IRA, earnings are taxed annually whether distributed or left to compound inside the CD and would be includable as ordinary income.
Potential Tax Penalties	For non-qualified annuities, there is a 10% penalty tax on growth that is withdrawn prior to attaining age 59 ½. Gains are distributed before any principal. If annuity is inside of a Traditional or Roth IRA, those tax rules apply.	None, unless inside of a tax-deferred account such as a Traditional or Roth IRA, in which case those tax rules apply.
Creditor Protection	In many jurisdictions annuities may have some protection from claims of creditors.	Typically none. Some states may grant protection if funded with exempt assets.

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Characteristics	Fixed Annuities	Certificates of Deposit
Fees	Not typical, unless associated with optional income riders.	Typically none.
Probate Exposure	Proper beneficiary designations may avoid expense and delay of probate.	Does not automatically avoid probate. Must be owned as Joint Tenants with Rights of Survivorship (JTWROS) or with Payable on Death (POD) instructions to avoid probate.
Income Options	Ability to convert contract balance into a guaranteed fixed income stream for a set number of years or for life. Favorable tax treatment when annuitized in this manner.	No lifetime or other guaranteed payments. Earnings may be distributed when paid and principal can be liquidated upon maturity (or earlier, subject to penalty).
Best Suited for	• Those seeking predictable retirement income at some future point. • Those seeking the long-term deferral of income taxes on invested amount. • No need for the funds prior to 59 ½.	• Those with short-to-intermediate term investment horizons. • Need to use funds prior to age 59 ½. • Those able to pay taxes on annual earnings from sources other than CD.

As you can see from the preceding table, fixed annuities and CDs share many common characteristics, but also have some notable differences. Ultimately, there is no "one-size-fits-all" answer as to which may be best. The use of each instrument should be examined in connection with each person's specific goals, needs, and circumstances.

Fixed annuities may be an attractive consideration for those who are approaching retirement and looking to insulate a portion of their portfolio from market risk and to provide future guaranteed income. Similarly, those already in retirement who want to avoid current income taxation on the earnings or some portion of their portfolio, and do so in a conservative manner, may find benefit to a fixed annuity.

Fixed annuities may not be a good fit for younger investors, or for those needing access to the funds prior to age 59 ½. There can even be some outcomes where the differences in how each instrument is taxed when using the funds for income in retirement can tilt the results either to or away from a fixed annuity.

The key is understanding how each option may play out in the specific situation for each person. Using appropriate financial planning software, such as Planning Tool, can assist in analyzing these differences under the specific conditions each person may face. This may help reach a better understanding of which instrument may be in the best interest of each person. That investment in a proper understanding may bring the knowledge that pays the highest interest of all.

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