

WHAT'S THE REAL RETURN ON CDs?

The Toll of Taxes & Inflation



One step forward and two steps back. It's a dance that's probably familiar to individuals who invest in certificates of deposit (CDs). CDs are short-term investments that pay fixed principal and interest, are insured by the FDIC up to \$250,000, and are subject to changing renewal rates and early withdrawal penalties. After factoring in taxes and inflation, many people who entrusted their money to CDs may have discovered the high cost of stability—years of low and even negative returns, as illustrated below.

The CD income shown below is calculated using the six-month annualized average monthly CD rate reported by the Federal Reserve. The tax rate used in the example is the highest marginal federal income tax rate based on \$100,000 of taxable income for a married couple filing jointly. The tax rate is not representative of the experience of every investor, and a lower tax rate would have a favorable effect on the real return.

How Inflation and Taxes Have Affected CD Return Rates

In 12 of the last 30 years, CDs earned a negative “real” rate of return (e.g. after taxes and inflation). And in four of the 18 positive years, CDs earned a real rate of return of less than 1%.

Year	Six-Month CD Rate	Taxes ¹	Inflation ²	Real Return After Taxes & Inflation
12/31/82	12.55%	50.0%	3.83%	2.45%
12/31/83	9.27%	48.0%	3.79%	1.03%
12/31/84	10.67%	45.0%	3.95%	1.92%
12/31/85	8.24%	45.0%	3.80%	0.73%
12/31/86	6.51%	45.0%	1.10%	2.48%
12/31/87	7.00%	38.5%	4.43%	-0.13%
12/31/88	7.90%	33.0%	4.42%	0.87%
12/31/89	9.08%	33.0%	4.65%	1.43%
12/31/90	8.17%	33.0%	6.11%	-0.64%
12/31/91	5.91%	31.0%	3.06%	1.02%
12/31/92	3.76%	31.0%	2.90%	-0.31%
12/31/93	3.28%	31.0%	2.75%	-0.49%
12/31/94	4.95%	31.0%	2.67%	0.75%
12/31/95	5.98%	31.0%	2.54%	1.59%
12/31/96	5.46%	31.0%	3.32%	0.45%
12/31/97	5.72%	31.0%	1.70%	2.25%
12/31/98	5.44%	28.0%	1.61%	2.31%
12/31/99	5.39%	28.0%	2.68%	1.20%
12/31/00	6.63%	28.0%	3.39%	1.38%
12/31/01	3.53%	27.5%	1.55%	1.01%
12/31/02	1.78%	27.0%	2.38%	-1.08%
12/31/03	1.19%	25.0%	1.89%	-1.00%
12/31/04	1.80%	25.0%	3.25%	-1.90%
12/31/05	3.80%	25.0%	3.42%	-0.57%
12/31/06	5.24%	25.0%	2.54%	1.39%
12/31/07	5.20%	25.0%	4.08%	-0.18%
12/31/08	3.03%	25.0%	0.09%	2.18%
12/31/09	0.81%	25.0%	2.72%	-2.11%
12/31/10	0.42%	25.0%	1.50%	-1.19%
12/31/11	0.43%	25.0%	3.22%	-2.90%

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

Data Source: Thomson Reuters, 1/12.

¹ Highest marginal federal income tax rate based on \$100,000 of taxable income for a married couple filing jointly, www.taxpolicycenter.org

² Inflation rates are based on the Consumer Price Index (CPI), a measure of change in consumer prices as determined by the U.S. Bureau of Labor Statistics. You cannot invest directly in the index.

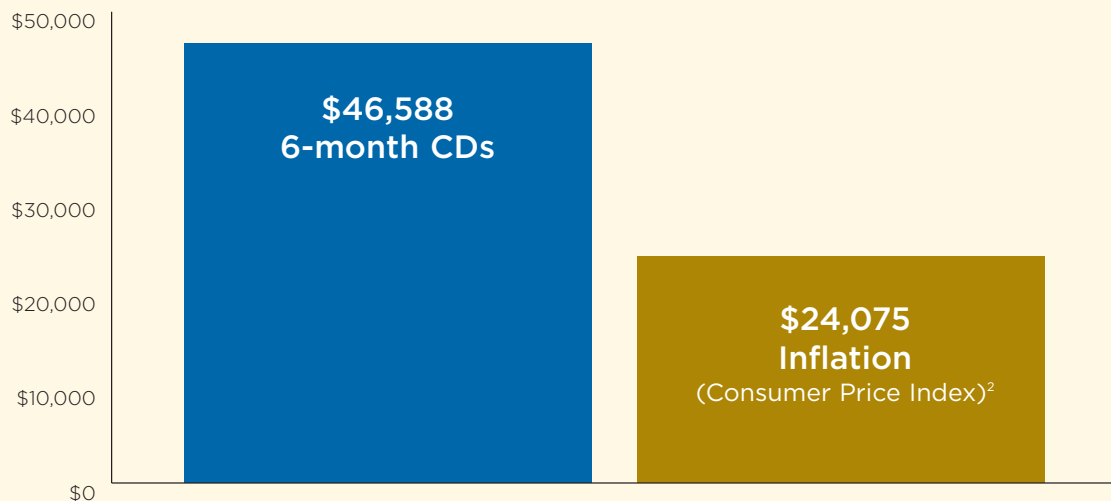
The Negative Side of CDs

Are CDs the right investment choice for you? Although there are benefits to investing in CDs, there are also risks. Because of the inherent safety and short-term nature of CDs, yields may be lower than other higher-risk investments. In addition, CDs sold prior to maturity may be subject to early

withdrawal penalties. Investors must also consider the impact of inflation on CD returns, as illustrated below. Note that CD income is calculated using the six-month annualized average monthly CD rate reported by the Federal Reserve.

Growth of \$10,000 in CDs vs. Inflation: 12/31/81-12/31/11

This chart represents the growth of a \$10,000 investment in six-month CDs vs. inflation (as measured by the Consumer Price Index²) over the last 30 years. Inflation consumed nearly half the return that CDs provided over this period.



Data Source: Thomson Reuters, 1/12.

Talk to your financial advisor to learn more about the effect taxes and inflation can have on your investments, and which investment may be appropriate for you based on your financial goals.

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