



Looking for a Less Taxing Way to Save for Retirement?

Balancing Short-term Needs With Long-term Savings

You may have a mix of retirement savings products including certificates of deposit (CDs) to cover short-term liquidity needs and annuities for tax-deferred asset growth. Although CDs and annuities differ in their features, combined they can complement a diversified portfolio.

If you need to pay for a roof or a child's wedding, a CD provides immediate access to money to cover the expenditure. If you want to grow assets at a potentially higher rate for a set term, a fixed annuity can help facilitate a long-term savings goal.

In general terms, the chart below shows how CDs and annuities differ:

Feature	CD	Annuity
Contract	Product at a bank	Contract with an insurance company
Purchases	Single deposit	Single or multiple premiums (one contract/one statement)
Guarantee of Principal	Yes (by the bank and the FDIC or by a credit union and NCUA/NCUSIF up to \$250,000)	Yes (by the issuing insurance company)
Sales Charges or Upfront Fees	None	None (although withdrawal charges may apply)
Hospital/Nursing Home Waiver	No	Yes, depending on the features of a particular annuity
Liquidity	Yes (can often, but not always withdraw interest without penalty)	Yes, after the first contract year (can withdraw up to 10% of Contract Value each year without penalty)
Guaranteed Lifetime Income Option	No	Yes, depending on the features of a particular annuity and the associated rider (an annual rider charge usually applies)
10% IRS Penalty Tax if Funds Are Withdrawn Before Age 59½	No; Yes (IRA)	Yes
Avoids Probate	No (unless set up as "payable upon death")	Yes
Tax-deferred Interest	No; Yes (IRA)	Yes

How Taxes and Inflation Impact CDs

Many people use CDs to safeguard their savings and avoid market-based risk but inflation can potentially erode purchasing power long term.

The table below shows how a \$100,000 deposit in a typical 12-month CD over the past 10 years accrued interest, based on the assumed indicated CD and tax rates. Once taxes and inflation are factored in, the effective interest rate was actually a cumulative negative number, -1.40%. After 10 years, the CD's purchasing power was only \$103,242.35 after taxes and inflation.¹

\$100,000 Over 10 Years	Original Deposit	12-month CD ²	Tax Rate ³	After Tax Interest Rate	Total After Taxes	Inflation	Total After Taxes and Inflation	Effective Interest Rate*
1	\$100,000.00	0.23%	25%	0.17%	\$100,171.78	2.10%	\$98,068.17	-1.93%
2	\$100,171.78	0.28%	25%	0.21%	\$100,382.28	2.10%	\$98,274.26	-1.89%
3	\$100,382.28	0.46%	22%	0.36%	\$100,739.65	1.90%	\$98,825.60	-1.55%
4	\$100,739.65	0.66%	22%	0.51%	\$101,255.84	2.30%	\$98,926.95	-1.80%
5	\$101,255.84	0.30%	22%	0.23%	\$101,490.95	1.40%	\$100,070.08	-1.17%
6	\$101,490.95	0.15%	22%	0.12%	\$101,610.06	7.00%	\$94,497.35	-6.89%
7	\$101,610.06	0.42%	22%	0.32%	\$101,939.63	6.50%	\$95,313.56	-6.20%
8	\$101,939.63	1.62%	22%	1.26%	\$103,228.40	3.40%	\$99,718.64	-2.18%
9	\$103,228.40	1.84%	22%	1.43%	\$104,706.58	2.90%	\$101,670.09	-1.51%
10	\$104,706.58	1.72%	22%	1.34%	\$106,107.24	2.70%	\$103,242.35	-1.40%

The above table reflects the national average CD rates over a 10 year period. Given recent changes to interest rates, what would be the impact of inflation with a CD earning 4% interest?

Original Deposit	12-month CD	Tax Rate ³	After Tax Interest Rate	Total After Taxes	Inflation	Total After Taxes and Inflation	Effective Interest Rate*
\$100,000.00	4.00%	22%	3.12%	\$103,120.00	2.70%	\$100,335.76	0.34%

Using a tax-deferred option may provide greater long-term savings potential when taxes are not deducted annually.

Talk to your financial professional to learn more

or contact us at 800.888.2461.

¹ BLS.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

² Fred.stlouisfed.org

³ Taxpolicycenter.org/statistics/detailed-individual-income-tax-parameters-including-brackets-1944-present

*Real interest rates don't account for taxes, only inflation.

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