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The Certificate of Deposit Alternative

How Can A Certificate of Deposit Be Used To Provide Retirement Income?

- Many retired individuals who are averse to investment risk elect to generate income from their retirement savings by purchasing bank certificates of deposit (CDs). Here's how this alternative works:
- When you purchase a CD, you invest a fixed sum of money for a fixed period of time, such as six months, one year, five years, or even longer.
- In exchange, the issuing bank pays you interest, typically at fixed intervals. Generally speaking, the longer the term of the CD, the higher the rate of interest it pays.
- The interest earned by a CD is included in your taxable income each year.
- When the CD matures, you receive back the sum of money you originally invested, plus any interest that accrued during the term of the CD.
- You can redeem your CD before it matures, but you may have to pay an early withdrawal penalty.
- CDs feature federal deposit (FDIC) insurance up to \$250,000 for each depositor in each bank or thrift institution.



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Let's look at a hypothetical example of how the CD alternative works:

Assumptions	
CD Amount	\$100,000
CD Term	10 Years
CD Annual Interest Rate	2.5%
Income Tax Rate	24%

Results	
Annual Interest Income	\$2,500
Income Tax Due	-- 600.00
Net After-Tax Annual Income:	\$1,900

NOTE: This is a hypothetical illustration only and is not indicative of any particular bank certificate of deposit or performance. It does not reflect any fees associated with a bank certificate of deposit, which would reduce the performance shown in this hypothetical illustration if they were included.