## 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 | $\mathbf{\$ 1 0 0 , 0 0 0}$ |
| CD Term | 10 Years |
| CD Annual Interest Rate | $\mathbf{2 . 5 \%}$ |
| Income Tax Rate | $\mathbf{2 4 \%}$ |


| Results |  |
| :---: | :---: |
| Annual Interest Income | $\mathbf{\$ 2 , 5 0 0}$ |
| Income Tax Due | $\mathbf{- - 6 0 0 . 0 0}$ |
| Net After-Tax Annual <br> Income: | $\mathbf{\$ 1 , 9 0 0}$ |

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.

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[^0]:    The information, general principles and conclusions presented in this report are subject to local, state and federal laws and regulations, court cases and any revisions of same. While every care has been taken in the preparation of this report, we are not engaged in providing legal, accounting, financial or other professional services. This report should not be used as a substitute for the professional advice of an attorney, accountant, or other qualified professional.

