Annuities Vs CDs

Annuities and CDs (bank certificates of deposit) are similar in that they are safe, secure investments with guaranteed rate of returns based on interest rates, both issued by large financial institutions, CDs issued by banks, Annuities offered by insurance companies, but they both possess inherent differences as well.

The big differences are that while Annuities offer everything CDs offer, they carry several advantages.

1. Generally Higher returns
2. Tax-Deferral
3. Liquidity

CDs do have FDIC protection to guard against Bank or banking industry failure, but Annuities also have safety measures put in place by the state to ensure Insurance companies have reserve pools in place. Insurance companies may also be vetted for financial strength by obtaining their rating from objective rating firms -- Standard & Poor's, Moody's, A.M. Best or Duff & Phelps . The more solid the rating usually equates to a more solid financial backbone of Insurance Company.

Higher Returns:
Annuities, like CDs, are hinged to interest rates. But when rates are low so are CD returns whereas annuities have a minimum guarantee in place, usually 3% or 4%. Your investment will never dip below the guaranteed minimum interest rate during times of falling or low interest rates.

Again, low interest rates mean CD returns will be low as well. To offset the problem of low or falling interest rates, insurance companies equip annuities with guaranteed minimums. This is an agreed minimum rate of interest so that your investment is assured not to fall below the minimum performance even if CD rates do.

Tax-Deferral:
You pay annual taxes on CD interest earned without being able to withdraw funds until your investment term is over. With annuities, there is also a set term, but the earnings are tax-deferred. You only pay taxes on interest earned when money is withdrawn. So with annuities the deferred tax on your interest remains in the investment earning you more and more money, instead of being paid out to state and federal tax agencies on a yearly basis.

Liquidity:
CDs do not allow you to withdraw any monies during term. Period. Annuities have provisions that allow you to withdraw money, generally 10% of your account value annually plus many contracts allow you to remove the earned interest on a monthly basis. Several other contract provisions allow you access to all of your funds such as in the event you are hospitalized, undergoing a life-threatening illness, subjected to a permanent or extended

stay in a nursing home, or other major calamities that affect you economically. In addition, annuities can be structured to pay-out for the life of the owner over a fixed term such as five or ten years, thereby spreading out your tax-burden and providing enhanced income security. In short, Annuities offer enhanced flexibility.

	Bank CD	Annuity
Loan privileges	No	YES
Flexible premium	No	YES
Avoidance of probate costs and delays	No	YES
Withdraw for dollar-cost-averaging opportunities	No	YES
Withdraw for required minimum distributions, penalty free	No	YES
Potential Social Security tax advantage	No	YES
Nursing Home Benefit	No	YES
"Issue no money" capability	No	YES
Bonus available on premium	No	YES
Guaranteed lifetime income option	No	YES
Potentially high yields	No	YES
Tax-deferred Growth	No	YES