



**Florida Affordable Insurance, Inc.**

"Focus & Innovation For Your Future"

## **CD's verses Annuities?**

CD's (Certificates of Deposit) and annuities are alike in that they are a secure, safe investment that have a guaranteed rate of return based on current interest rates, both are issued by financial institutions, CD's are issued by banks and annuities through insurance companies, but as much as they are alike they are different.

The big difference between them is that while annuities offer the same things as CD's offer, they offer several advantages such as:

- 1. Generally Higher Returns**
- 2. They offer Tax-Deferral**
- 3. And Liquidity**

CD's do have FDIC protection against bank or banking industry failures. Annuities also have measures put in place by the state to ensure insurance companies have reserves in place to protect the investor. Insurance companies are vetted for financial strength by ratings from objective rating firms -- Standard & Poor's, Moody's, A.M. Best or Duff & Phelps. The higher the rating indicates a more solid financial backbone of company.

### **Higher Returns:**

Annuities, like CD's, are tied to interest rates. When rates are low CD's returns are as well, whereas annuities have a minimum guarantee interest rate tied to them, usually 3% or 4%. Your investment will never fall below the guaranteed minimum interest rate during times when interest rates are falling or lower interest rates.

This means that low interest rates CD's returns will also be low. To offset the problem of low or falling interest rates, annuities come with a guaranteed minimum interest rate, this way your investment is assured not to fall below the minimum performance even if CD's rates do so.

### **Tax-Deferral:**

You will have to pay annual taxes on CD's interest earned without being able to withdraw funds until your initial term is over. With an annuity, there are also set terms, but your earnings are tax-deferred. You only pay taxes on the interest earned when money is withdrawn. This way with your

Florida Affordable Insurance, Inc.

Phone: 727-505-6684

Toll Free: 877-553-7267

Fax: 727-494-0861

<http://FloridaAffordableInsurance.com>

[inquiries@FloridaAffordableInsurance.com](mailto:inquiries@FloridaAffordableInsurance.com)

annuities the deferred tax on your interest remains in the annuity earning you more money, instead of having to pay state and federal tax on the interest yearly.

**Liquidity:**

CD's will not allow you to withdraw any money during term without a surrender charge. Annuities do have provisions that allow you to withdraw money, generally 10% of your account value annually and many allow you to remove the earned interest on a monthly basis. Other contract provisions allow you access to all of your moneys in the event you are hospitalized, undergoing a life-threatening illness, subjected to a permanent or extended stay in a nursing home that affects you financially. Also, annuities can be structured to pay-out for the life of the owner or over a fixed term such as five, ten, twenty years, spreading out your tax-burden and providing enhanced income security. In short, annuities offer more flexibility, tax deferral and a higher rate of return than CD's.

Here is a list of some of the differences between annuities and CD's:		
	CD'S	ANNUITIES
Loan privileges	NO	YES
Flexible premium	NO	YES
Able to avoidance of probate costs and delays	NO	YES
Withdraw for required minimum distributions penalty free	NO	YES
Potential Social Security tax advantage	NO	YES
Nursing Home Benefit	NO	YES
A bonus may be available on premium	NO	YES
A guaranteed lifetime income option	NO	YES
Potentially higher yields	NO	YES
Tax-deferred Growth	NO	YES

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