Delaware Life®

Comparing CDs and fixed annuities:

Which one works best when you're saving for retirement?

Issued by Delaware Life Insurance Company

Both traditional certificates of deposit (CDs) and fixed annuities provide good ways to save for the future. Each offers a safe, secure way to grow your savings with a guaranteed rate of return. But they also have several distinct differences.

Here's a quick look at how they compare, with more details below.

Feature	Fixed annuity	CD
Guaranteed interest rate, free from market risk	Yes	Yes
Available for time periods less than one year	No	Yes
Interest earnings automatically reinvested	Yes	Yes
Earnings grow tax-deferred	Yes	No*
Penalty-free withdrawals of up to 10% each year**	Yes	No
Guaranteed lifetime income options	Yes	No
Full value goes directly to beneficiaries at owner's death	Yes	Yes
Guaranteed by the FDIC	No	Yes

*Only if the CD is not held in an IRA or other tax-qualified account.
**Not available with all contracts and may not be available within the first contract year.

Guaranteed interest rate

Fixed annuities offer a guaranteed "fixed" rate of return that is locked in for a specific period of time, typically from one to 10 years. After that time, when you renew your contract for another time period the new rate for the guarantee period you choose will be based on competitive interest rates on the date of your renewal, which may differ from your original guaranteed rate.

Traditional CDs also offer fixed, guaranteed rates of return for set periods of time, but they can be purchased for shorter time periods starting at three months. The stated interest rate is also locked in until the CD matures, but there is no guaranteed minimum renewal rate.

Both savings vehicles automatically reinvest any interest you earn each year, so your initial purchase payment and the interest you earn each year can earn additional "compound" interest over time.

Tax-deferred growth potential

The interest earnings in your fixed annuity are "tax-deferred," so you won't need to pay taxes on these earnings until you withdraw them. That gives your annuity's earnings and cash value the potential to grow even more.

On the other hand, taxes on CD interest earnings must be paid each year, even though they can't be withdrawn without penalties until the CD matures.

Penalty-free withdrawals

Most fixed annuities allow you to withdraw a portion of your account value after the first contract year—typically 10% each year--without penalties. If you withdraw more than this limit, you will pay early withdrawal or "surrender" fees and sometimes other adjustments. You won't pay early surrender fees if the money withdrawn from your annuity is used to:

- Satisfy a required minimum distribution (RMD) after age 70½.
- Cover the cost of long-term care for a terminal illness or an extended nursing home stay. Subject to certain exclusions and restrictions.

Early withdrawals from a CD before the end of the term also can incur penalties, which could potentially be up to three months' interest for a one-year CD, and as much as six months' interest for CDs with longer maturities.

Income options

With a fixed annuity, you can choose from a variety of payment options when the contract ends, including a lump-sum payment, periodic payments of a certain amount, payments over your lifetime, or guaranteed payments over a fixed period such as five or 10 years, that help you spread out your tax burden. With some fixed annuity contracts, you also have the option of purchasing an extra "rider" for an additonal fee to guarantee that the income you receive lasts for the rest of your life.

The only income payment option for a CD is to receive the entire value of the CD when it matures.

Death benefits

If you die before a fixed annuity contract ends or a CD matures, the value of the account goes directly to your beneficiaries without the delay of probate.

Safety

A CD, issued by a bank, is insured by the Federal Deposit Insurance Corporation (FDIC) for its full value, up to $250,000.

A fixed annuity, issued by an insurance company, is backed by the financial strength and claims-paying ability of the insurance firm. So, before you purchase a fixed annuity, check to see how the independent ratings services—Moody's, S&P, and Finch—rank the financial strength of the insurance company.

Contact Your Financial Professional Today to Learn More

Guarantees are backed by the financial strength and claims-paying ability of Delaware Life Insurance Company (Waltham, MA).

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When you buy an annuity to fund a qualified retirement plan or IRA, you get no additional tax advantage from the annuity because the earnings and income in the plan are already tax deferred. You should only consider an annuity for the annuity's features and benefits other than tax deferral. That's because tax deferral is not an additional benefit of the annuity.

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