Comparing Fixed Annuities and Certificates of Deposit

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Here's a quick checklist for comparing some key features of fixed annuities and certificates of deposit.

KEY FEATURES	TRADITIONAL FIXED ANNUITIES		CERTIFICATES OF DEPOSIT	
Similarities				
Guaranteed principal	**Yes** ➤	Backed by claims-paying ability of issuing insurance company.	**Yes** ➤	Backed by financial institution and FDIC or NCUA/NCUSIF insurance up to $250,000 per depositor.[1]
Fixed interest rate	**Yes** ➤	Initial rate fixed for given time period; new rate set for each renewal period.	**Yes** ➤	Initial rate fixed for given time period; new rate set if CD is "rolled over."
Appeals to conservative individuals	**Yes** ➤	Principal value does not fluctuate with stock and/or bond market.	**Yes** ➤	Principal value does not fluctuate with stock and/or bond market.
Early withdrawal penalty	**Yes** ➤	Surrender charges apply during early years of contract, and earnings withdrawn before age 59½ may be subject to a penalty tax.[2]	**Yes** ➤	Not as heavy as fixed annuity; generally lose some interest if CD is redeemed prior to maturity.
Differences				
Tax-deferred interest	**Yes** ➤	During accumulation stage.[2]	**No** ➤	Earnings currently taxable.
Highly liquid	**No** ➤	Not during accumulation stage **(except for free withdrawal amount, generally 10-15%).**[2]	**Yes** ➤	Except for early withdrawal penalty **(see next row).**
Income options	**Yes** ➤	Variety of income options, including lifetime payments, payments for a certain period of time, or systematic withdrawals.[3]	**Limited** ➤	Interest payments available in cash when credited to account, or accumulated for payment at maturity.
Avoids delay and expense of probate	**Yes** ➤	If proceeds paid directly to named beneficiaries.	**No** ➤	Unless held as "payable on death" or in trust accounts.
When suitable	**Long Term** ➤	For longer-term financial goals, such as retirement.	**Short Term** ➤	For shorter- or intermediate-term financial goals, such as vacations, house down-payments, or college expenses expected within 5 years.

Talk with a financial representative to determine the investment option that works best with your financial goals.

1 The $250,000 FDIC limit will expire on 12/31/2009. As of January 1, 2010, the new FDIC limit will be $100,000.

2 Distributions taken prior to annuitization are generally considered to come from the earnings in the contract first. Withdrawals of earnings are taxed as ordinary income and, if taken prior to age 59½, may be subject to an additional 10% federal tax penalty.

3 Distributions of earnings and deductible contributions are subject to ordinary income taxes and if made prior to age 59½ may be subject to an additional 10% federal income tax penalty.

Not FDIC, NCUA/NCUSIF Insured	Not insured by any federal government agency	Not a deposit	Not guaranteed by the bank or credit union	May go down in value

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