CD vs. Deferred Fixed Annuity

Which Best Meets Your Needs?

The Company You Keep®

Both certificates of deposit (CDs) and deferred fixed annuities are savings vehicles used to accumulate wealth. However, these two products are quite different; each has its own unique strengths and purposes. Which one is best for you? It depends on your objectives.

For the sake of comparison, let's look at two similar versions of these products — an individually owned, non-tax-qualified bank CD and an individually owned, non-tax-qualified single-premium deferred fixed annuity. Below is an overview of the similarities and differences of these two products. This list will help determine which one is best suited for your needs at this time.

Interest Return

Certificates of Deposit

- CDs offer a guaranteed rate of return for a specified period of time.
- Interest rates will vary depending on current market conditions and the length of time to maturity.
- Generally, the shorter the period of time to maturity, the lower the rate. There is no guaranteed minimum for renewal rates.
- CDs are used as short-term investments.

Deferred fixed annuity

- A guaranteed interest rate is locked in for an initial period, usually one, two, three, five or six years.
- Interest rates will generally renew each year after the initial interest rate guarantee period.
- Regardless of market conditions, the annuity will pay a guaranteed minimum rate, stated in the policy.
- Deferred fixed annuities are used as long-term investments.

Differences and Similarities

• Safety of Principal — Both CDs and deferred fixed annuities are considered low-risk investments. CDs are generally issued by banks and, in most cases, are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $100,000 per depositor. Should the bank fail, the FDIC guarantees CDs up to this amount.

Deferred fixed annuities are issued by insurance companies and are not insured by the U.S. government. They are backed by the financial strength of the issuing insurance company, regardless of the amount.

• Short-term Accumulation — Consider your investment horizon. That's the amount of time you need to save for a specific goal. For short-term goals, such as a down payment on a home or a new car, a CD may prove to be a better choice. You can usually select a maturity date for your CD that corresponds to your time horizon. Maturity periods can be as short as one month or as long as several years.

• Long-term Accumulation — A deferred fixed annuity is generally good for the long haul. Deferred fixed annuities are designed to help accumulate money for retirement or to protect funds already saved once you've reached retirement. In later years, deferred fixed annuities are usually more flexible for accessing your money. They can even be used to provide a legacy for your heirs.

• Liquidity — If you need access to the funds in a CD prior to the maturity date, you may pay an interest penalty ranging from 30 days' to six months' interest. Of course, you can limit your exposure to surrender penalties by investing in several CDs with staggered maturity dates.

A deferred fixed annuity also provides you with access to your money should the need arise. With a deferred fixed annuity, withdrawals during the first several years are generally subject to surrender charges. However, most companies will give you the flexibility to withdraw a portion of your deferred annuity's account value, usually 10% each year, without a company-imposed surrender charge. And after the first several years, once the surrender charge period has expired, you can generally access your money at any time without surrender penalties. (Keep in mind that withdrawals of earnings are taxable and, if they are made prior to age 59$^{1}/_{2}$, they may be subject to a 10% penalty tax.)

• Distribution Options at Maturity — When a CD reaches its maturity, you can take the CD's lump sum value in cash, renew the CD for the same or different

continued on page 2

Save on Taxes with a Deferred Fixed Annuity

If taxes are a concern to you, a deferred fixed annuity may be a better option for several reasons:

Earnings on CDs are taxable in the year the interest is earned, even if you don't take the money out. But with deferred fixed annuities earnings accumulate tax-deferred and are not treated as taxable income until they are withdrawn. This feature gives you some control over when you pay taxes and how much you pay.

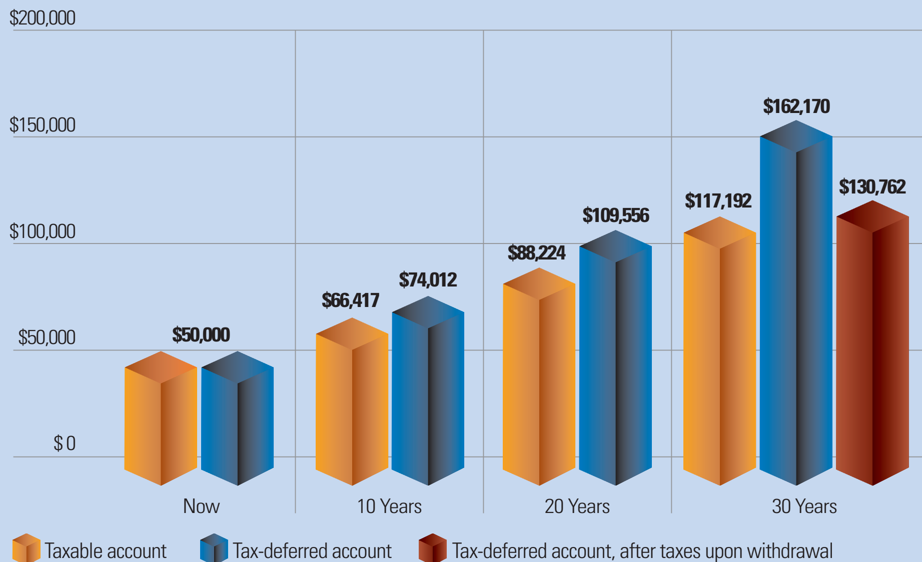
As you can see from the chart, when saving for the long term, it makes good investment sense to have the power of tax deferral on your side. Keep in mind that withdrawals from the earnings portion of a deferred fixed annuity are taxable and, if you're under age 59½, these earnings may be subject to a 10% tax penalty.

Deferred fixed annuities may also help reduce or eliminate the taxes on your Social Security benefits. By leaving your money in a deferred fixed annuity, you can reduce your taxable income, keeping it below the level where you would begin to owe taxes on your Social Security benefits. With CDs, your interest earnings count in the calculation of how your Social Security benefits will be taxed — even if you don't withdraw the earnings. As much as 85% of your Social Security benefits could end up subject to taxation.

At death, the annuity's account value will be paid directly to your named beneficiary(ies), avoiding the costs and delays associated with probate. This is not the case with a CD, which may be subject to probate. (Please note: Both fixed annuities and CDs are subject to estate tax, and the earnings inside a fixed annuity are subject to income tax when paid out. The earnings in a CD have already been taxed when earned.)

When purchasing a deferred fixed annuity, look for one that distributes the full account value to beneficiaries. Some companies apply surrender charges on death benefit proceeds.

Tax-Deferred Accumulation Can Serve As A Powerful Financial Tool



Assumptions for the life of the investment: • One-time $50,000 lump sum investment • 4% net rate of return (Hypothetical rate used for illustration purposes only.) • 28% federal tax bracket

This illustration is hypothetical and is not intended to be a projection of future values of any product. Withdrawals of earnings from the tax-deferred account will be subject to ordinary income tax and, if taken prior to age 59½, a 10% federal tax penalty. Changes in tax rates may impact the comparative results. You should consider your personal investment horizon and income tax bracket, both current and anticipated, when making an investment decision as these may further impact the results. Lower maximum tax rates on capital gains and dividends would make the investment return for the taxable investment more favorable.

continued from page 1

maturity period, or examine other investment alternatives (such as a deferred annuity).

In a deferred fixed annuity, you may elect to withdraw your money in a lump sum, or you may want to select a lifetime income option, which provides you with a flow of income that you cannot outlive. Or, you can simply elect to let your funds continue to accumulate until a need arises.

Know Your Company's Financial Strength

Before purchasing an annuity, you should make sure the issuing insurance company is financially sound. You can determine financial strength by requesting the findings of independent rating companies such as Moody's, A.M. Best, Standard & Poor's, and Fitch. These companies evaluate the financial strength of insurance companies and publish ratings giving their assessments of each company.

These are just a few of the factors to consider when making your selection between a CD and a deferred fixed annuity. For more information about annuities, contact your New York Life insurance professional today.

Your New York Life insurance professional does not provide tax, legal or accounting advice. Please consult your own tax, legal or accounting professional before making any decisions.

New York Life Insurance Company
New York Life Insurance and Annuity Corporation (A Delaware Corporation)
51 Madison Avenue, New York, NY 10010
www.newyorklife.com

13475(06/07) SMRU 00350402CV(Exp.06/09)