Delaware Life® | Retirement Education

Comparing fixed annuities and CDs: Which one works best for retirement?

Both fixed annuities and traditional certificates of deposit (CDs) and fixed annuities are 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.

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

*Earnings on a CD would be tax deferred if a CD is in an IRA or other tax-deferred retirement savings account.
**Not available with all contracts and may not be available within the first contract year.

Guaranteed interest rate

A fixed annuity is a contract between you and an insurance company that pays a guaranteed fixed rate of return that is locked in for a specific period of time, typically from one to 10 years. After that, 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. Your interest rate may differ from your original guaranteed rate.

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

Both savings vehicles automatically reinvest any interest you earn each year. Your initial purchase amount 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 them 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On the other hand, taxes on CD interest earnings must be paid each year, even though they can't be withdrawn without penalties until the CD matures.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) starting at age 72.
- Cover the cost of long-term care for a terminal illness or an extended nursing home stay. (Subject to certain exclusions and restrictions.)

Withdrawals from a CD before the end of the set period can also incur penalties. They 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:

- Lump-sum payment.
- Periodic payments of a specific amount.
- Payments over your lifetime.
- Guaranteed payments over a fixed period such as five or 10 years.

By not taking a lump sum, you can spread out taxation.

With some fixed annuity contracts, you also have the option of purchasing a rider for an additional 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

Because each requires a beneficiary to be named, 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.

How you may benefit from an annuity

Talk to your financial professional to learn more about how to use an annuity for your retirement savings.

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Withdrawals are taxed as ordinary income, and if taken prior to age 59½, there may be a 10% federal tax penalty. Withdrawals will reduce any protection benefits and may result in a surrender charge or a market value adjustment (MVA).

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 its features and benefits other than tax deferral.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK OR CREDIT UNION GUARANTEE
NOT A DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY OR NCUA/NCUSIF

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