

# Certificates of Deposit

## The Real Outcome

There is no question that CDs are a sound investment for individuals who are interested in pursuing certain short-term goals with minimal risk.

However, as the table to the right illustrates, holders of a 6-month CD with a \$75,000 annual income often will fall victim to reduced or negative returns when federal taxes are deducted from their interest and inflation is factored in.

### \$75,000 Annual Income

6-Month CD Yield	0.10%
Federal Taxes	22%
Inflation	2.3%
Real Outcome	-2.22%

In fact, the real outcome of CDs only outpaced inflation five times as illustrated in the table to the right.

Year	6-Month CD Yield <sup>1</sup>	Inflation <sup>2</sup>	Federal Tax % at \$75K Taxable Income <sup>3</sup>	Real Outcome
2019	0.10%	2.3%	22%	-2.22%
2018	0.30%	1.9%	22%	-1.67%
2017	0.27%	2.1%	25%	-1.89%
2016	0.27%	2.1%	25%	-1.89%
2015	0.27%	0.7%	25%	-0.49%
2014	0.27%	0.8%	25%	-0.59%
2013	0.27%	1.5%	25%	-1.30%
2012	0.49%	1.7%	25%	-1.33%
2011	0.39%	3.0%	25%	-2.71%
2010	0.44%	1.5%	25%	-1.17%
2009	1.61%	2.7%	25%	-1.49%
2008	3.76%	0.1%	25%	2.72%
2007	5.46%	4.1%	25%	-0.01%
2006	5.13%	2.5%	25%	1.35%
2005	3.28%	3.4%	25%	-0.94%
2004	1.47%	3.3%	25%	-2.20%
2003	1.29%	1.9%	25%	-0.93%
2002	2.04%	2.4%	27%	-0.91%
2001	4.85%	1.6%	27%	1.94%
2000	6.67%	3.4%	28%	1.40%
1999	5.40%	2.7%	28%	1.19%
1998	5.77%	1.6%	28%	2.56%
1997	5.83%	1.7%	28%	2.50%
1996	5.68%	3.3%	28%	0.79%
1995	6.30%	2.5%	28%	2.04%
1994	4.57%	2.7%	28%	0.59%
1993	3.39%	2.7%	28%	-0.26%
1992	4.17%	2.9%	28%	0.10%
1991	6.63%	3.1%	28%	1.68%
1990	8.56%	6.1%	28%	0.06%
1989	9.57%	4.6%	33%	1.81%
1988	7.84%	4.4%	33%	0.86%
1987	6.81%	4.4%	35%	0.02%
1986	6.99%	1.1%	42%	2.95%
1985	8.78%	3.8%	42%	1.29%
1984	10.92%	3.9%	42%	2.43%
1983	9.50%	3.8%	44%	1.52%
1982	13.80%	3.8%	49%	3.24%
1981	16.30%	8.9%	53%	-1.24%
1980	13.27%	12.5%	54%	-6.40%
1979	11.21%	13.3%	54%	-8.14%
1978	8.18%	9.0%	55%	-5.32%

*Real Outcome = Annual Percentage Yield x (1-Tax Bracket) - Inflation*

*Past performance is no guarantee of future results. This chart is for illustrative purposes only.*

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<sup>1</sup> Represents annual percentage yield based on an average rate of a 6-month negotiable certificate of deposit (secondary market), quoted on an investment basis and annualized using a 360-day year or bank interest. Source: Citi Certificate of Deposit 6 Month USD

<sup>2</sup> Consumer Price Index for All Urban Consumers (CPI-U). U.S. Department of Labor, Bureau of Labor Statistics

<sup>3</sup> Federal tax percentage assumes a \$75,000 taxable yearly income for an individual who is married and filing jointly with his or her spouse. The percentage varies depending upon the federally mandated tax rates for a given year. Source: Tax Policy Center

A Certificate of Deposit is a savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. For purposes of this illustration, a 6-month CD was used. The term of a CD generally ranges from one month to five years. Investment results for other CD terms (i.e. 9-month, 1-year, 2-year or longer term) will be different from the investment results illustrated on the front. Certificates of Deposit, unlike many other investments, are FDIC insured and may offer fixed rates of return. Moreover, CDs are subject to their own unique investment objectives, costs and expenses, liquidity standards, and tax features.

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services.

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