PHILADELPHIA FINANCIAL CONSULTANTS, LLC

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What your Banker Doesn't Want You to Know About CDs.

Index Products vs CDs

Both index products and CDs are savings vehicles with better interest rates than regular bank accounts. Once reviewed, however, index products appear to have advantages for knowledgeable consumers. Your clients' individual financial situation and objectives, as always, is the key.

This list of the differences between index products and CDs can help them to be compared against the desired outcomes. Here is a breakdown of the advantages of CDs versus index products.

Accumulation

Generally, CDs have short maturity periods, from one month to several years. This makes them a better choice for a short term goal such as a down payment on a home or a car. Your clients' investment horizon is a key factor.

The rate of returns on CDs is guaranteed for its maturity period. That rate depends on the current market rates when purchased on its time frame. Generally, the shorter the time frame, the lower the rate. The rate is not guaranteed if the CD is renewed. Index products are for long term investing. They are designed for accumulating money for an income during retirement. Index products can also be used to protect savings once retirement is reached, or to provide an inheritance.

Index products offer the ability for rates to rise with the market, while having a guaranteed minimum rate to protect against downturns.

Benefits of Tax Deferral

The interest on CDs is considered income in the year it is earned. As such, it is subject to income taxes. This is true, whether it is withdrawn or not.

The interest on index products is deferred until distributions on them is begun. They are typically deferred until retirement. This can be very important in retirement planning, as tax deferment can lower tax liability on Social Security benefits. That means higher monthly benefits for your clients.

Cash Accessibility

CD rates are locked in for their maturity period. They incur penalties if withdrawn early, whatever the reason. CDs do, however, usually have shorter time frames. If maximum liquidity is desired, then a CD may be the better choice.
Index products are designed to be for the longer haul. They do not offer the short-term turnaround of CDs. Index products do, however, offer annual free withdrawals of 10% or more, which can address liquidity needs.

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	INDEX PRODUCTS	CERTIFICATES OF DEPOSIT (CDs)
Loss Protection	Index products are backed by the company that issued them, with no limitations to amount or styling.	Currently, CDs are insured by the FDIC up to $250,000 per account per institution.
Withdrawal Charges	As long term investments, index products generally have a schedule of declining early withdrawal charges. After a designated period of time, these charges generally reduce to nothing.	As short term investments, CDs generally have preset early withdrawal penalties varying according to their term. The penalty periods restart each time the CD is renewed.
Access	Index products offer free annual withdrawals of at least 10%. Penalty-free early withdrawals may also be possible in emergency situations.	Having shorter time frames, the money in CDs will be accessible sooner. However, CDs offer no early withdrawals without penalties, regardless of circumstances.
Effects on Social Security Benefits	Interest on index products is deferred until payment begins. Therefore, it is not counted toward tax liability on Social Security benefits.	CD interest is counted toward taxation on Social Security benefits the year it is earned. This could lead to higher taxes on monthly benefits.
Taxation	Index products are tax deferred. Their interest income is not reported nor taxed until it is withdrawn. By that point, many clients are in a lower tax bracket due to retirement.	CD interest is reported and taxed the year it is earned. This is true whether any money is withdrawn or not.

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CD vs. Index Product Comparison Chart

Overview

	INDEX PRODUCTS	CERTIFICATES OF DEPOSIT (CDs)
Free from principal/market risk and price fluctuations?	Y	Y
Interest earnings free from current taxation.	Y	N
Interest earnings reinvented automatically with no current income taxation?	Y	N
Tax liability on Social Security Income.	Interest income from a tex deferred index product is not reportable until withdrawn	N
Liquid.	Y*	Y*
Flexible.	Y	N
Penalty free withdrawl?	Y**	N
Are they free from probate?	Y	N
Taxation or withdrawls?	10% penalty if withdrawn prior to 59 1/2	No tax penalty
How secured?	By the full faith and credit of the insurance company and by state regulations	FFDIC insured up to $2,500,000

*May be subject to early surrender charges. Certain limitations may apply.
**A portion of funds are available from index product each year.

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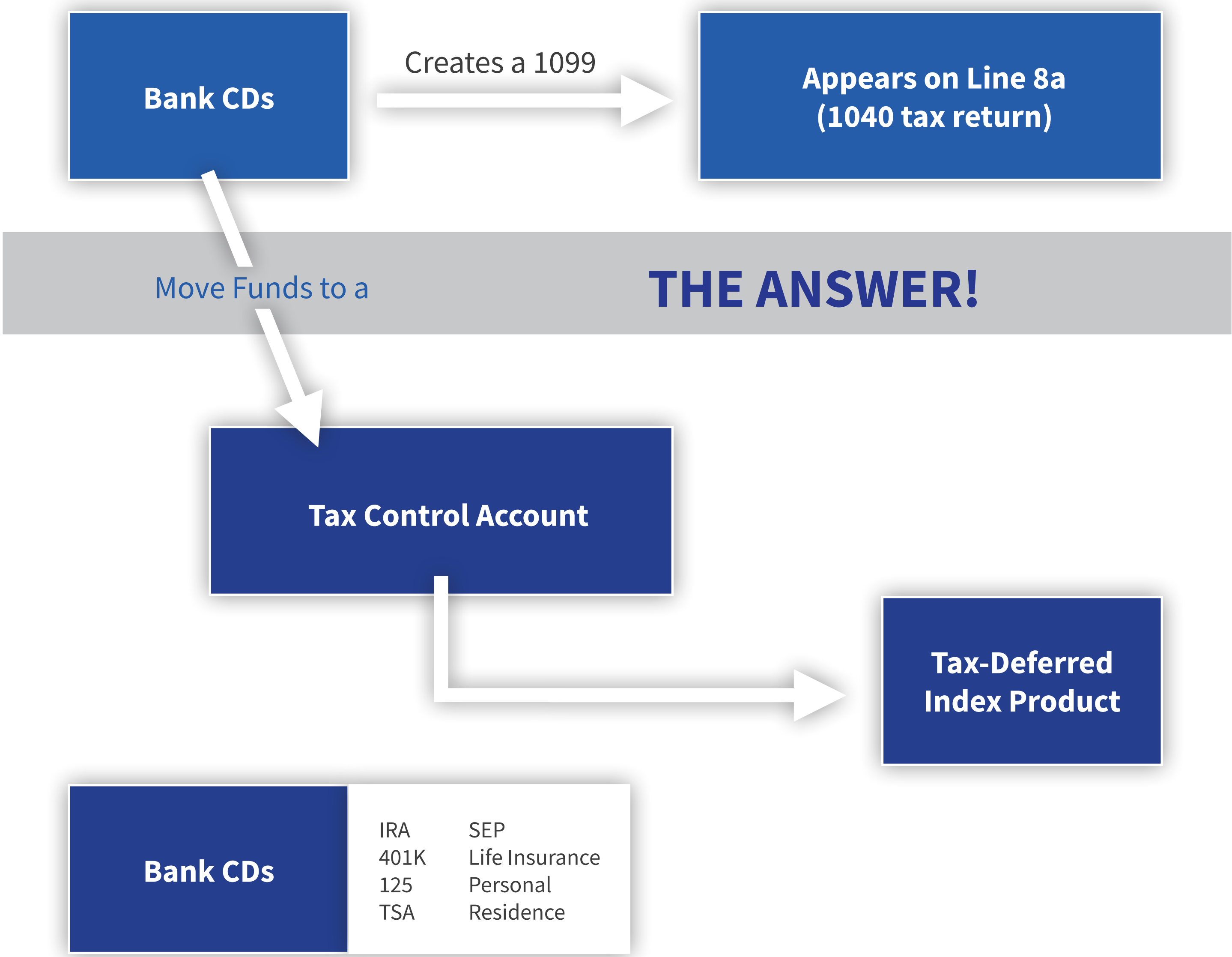
How to Reduce Taxes with a CD Rollover

1. Find the client's 1040 tax return form.
2. Illustrate the following diagram on paper:



NOTE: This information does not constitute legal or tax advice. This information merely reflects our understanding of current tax regulations. Consumers should discuss this information and consult their personal tax advisor. The information contained is subject ot change without notice.

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CD Questionnaire

Today's Date: ____

Full Name: ____

Address: ____

Phone: ____

Date of Birth: ____

Your CDs

Date Started: ____

Maturity Date: ____

Interest Rate: ____

Length of CD: ____

Penalty for Withdrawl: ____

Bank or Financial Institution: ____

What is your goal?

[ ] Keep the Principal & Interest in my account

[ ] Keep the Principal in my account and withdraw Interest

Is the Interest going to be taken: Monthly [ ] Quarterly [ ] Annually [ ]

Amount of CD(s): $______________________________________

$ ______________________________________

$ ______________________________________

Goals for funds: ____

Explain: ____

____

NOTES/COMMENTS: