

The real outcome

Certificates of deposit

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	2.26%
Federal taxes	22%
Net yield	1.76%
Inflation	3.40%
Real outcome	-1.64%

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

Year	6-month CD yield (%) ¹	Federal tax % at \$75k taxable income (%) ²	Net yield (after taxes)	Inflation (%) ³	Real outcome
2023	2.26	22%	1.76	3.40	-1.64
2022	1.83	22%	1.43	6.50	-5.07
2021	0.14	22%	0.11	7.00	-6.89
2020	0.26	22%	0.20	1.40	-1.20
2019	0.79	22%	0.62	2.30	-1.68
2018	0.68	22%	0.53	1.90	-1.37
2017	0.48	25%	0.36	2.10	-1.74
2016	0.34	25%	0.26	2.10	-1.85
2015	0.35	25%	0.26	0.70	-0.44
2014	0.39	25%	0.29	0.80	-0.51
2013	0.41	25%	0.31	1.50	-1.19
2012	0.47	25%	0.35	1.70	-1.35
2011	0.54	25%	0.41	3.00	-2.60
2010	0.79	25%	0.59	1.50	-0.91
2009	1.02	25%	0.77	2.70	-1.94
2008	2.20	25%	1.65	0.10	1.55
2007	4.35	25%	3.26	4.10	-0.84
2006	4.74	28%	3.41	2.50	0.91
2005	3.85	28%	2.77	3.40	-0.63
2004	1.98	28%	1.43	3.30	-1.87
2003	1.30	28%	0.94	1.90	-0.96
2002	1.62	30%	1.13	2.40	-1.27
2001	2.30	31%	1.60	1.60	0.00

Net Yield = Annual Percentage Yield x (1 - Tax Bracket)

Real Outcome = Net Yield - Inflation

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

¹ Bankrate 6 Month CD Rates National Avg. Source: Bloomberg

² Federal tax percentage assumes a \$75,000 taxable yearly income for single taxpayers. The percentage varies depending upon the federally mandated tax rates for a given year. Source: Tax Policy Center.

³ Consumer Price Index for All Urban Consumers (CPI-U). U.S. Department of Labor, Bureau of Labor Statistics

A **Certificate of Deposit (CD)** 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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