

## The ABCs of CDs

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Certificates of deposit (CDs) have been around for a long time, and banks are still pushing them on their customers, but are they really a good investment? Over the last 30 years, CDs have paid as high as 16% and as low as 2% annually. In 1981, they paid almost 16%. That doesn't sound too bad. However, tax rates were at 66% and inflation was almost 9%, which left you with a net return of 3.54%. (The gross doesn't mean a thing; all you get to keep is the net return. You can really get into trouble just focusing on the gross.)

1979 was an interesting year for CDs. The rate was not bad: 11.44%. The bad news was that taxes were at 66% and the inflation rate was over 13%, leaving a net of -9.41%. As I said you must always consider what the net is.

You may ask, "What was the best year with the highest net return?" It was 1986. The rate on CDs was just 6.6%. It was the best year in the past 30, because taxes were at 52% and inflation was only 1.1%, which left a net of 2.02%. That's really hard to believe, when you consider the fact that there are billions of dollars invested in CDs today, and literally hundreds of billions of dollars that have been invested over the years. Why? One reason is that most people just look at the gross and do not take the time to figure what the real net return is. What a pity.

So, what is a person to do? You need to find a nut willing to sit down at the computer and figure out something else that will work. Who is that person, you ask? Look no further!

I sat down and said, "There must be something that will do the job - and actually do it better." I started by totaling some numbers using a single deposit of \$100,000 into a certificate of deposit paying 4% per year. Here are my results:

(Yes, I know that it would be almost impossible to find a CD paying 4% at this time, but what the heck!)

5 years	10 years	15 years	20 years
\$121,665	\$148,024	\$180,094	\$219,112

I then started looking at various products that can accumulate money, and after examining quite a few, I stumbled onto a very unique situation. I examined a life insurance policy, and the results were quite interesting. Since it is a life insurance product, I ran it at different ages to see how it compared to the CD.

Lets start with a male, age 60. Here are the results with a single deposit of \$100,000:

5 years	10 years	15 years	20 years
\$121,290	\$169,296	\$235,171	\$315,421

I then totaled numbers for a male, age 50, and found the following:

5 years	10 years	15 years	20 years
\$127,788	\$180,033	\$254,582	\$353,657

I also ran the numbers for a woman. Since a woman's mortality risk is lower, the numbers were even better: For example, a 60-year-old female had \$335,355 in 20 years, and a 50-year-old female had \$358,986. Remember: the CD had only \$219,112.

Now, some of you may say that 4% is a low rate. I figured you would, so I also ran the numbers for a CD at a 5% rate and found:

To reiterate: The age 50 male had \$353,657 after 20 years; the age 60 male had \$315,421.

5 years	10 years	15 years	20 years
\$127,628	\$162,889	\$207,893	\$265,330

There are a few other things that I have not mentioned that make this something that should be considered very carefully. When you have money in a CD, the interest you earn is taxed every year, so if you started with a deposit of \$100,000 and earned 4%, you would have \$104,000, before taxes. After just a 30% tax you would have \$102,800. After 20 years, you would have just \$153,378. It's something to consider.

The life insurance policy works differently. I have constructed this so that it has a very small death benefit for such a large deposit. The initial death benefit is just \$250,000.

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