



## What's the Real Return on CDs? The toll of inflation and taxation

One step forward and two steps back. It's a dance that's probably familiar to certificate of deposit (CD) investors. CDs are short-term investments that pay fixed principal and interest but are subject to fluctuating rollover rates and early withdrawal penalties.

### The high cost of stability

After figuring in taxes and inflation, many people who entrusted their money to CDs, which are federally insured for up to \$250,000,<sup>1</sup> may have discovered the high cost of stability – years of low and even negative real returns, as illustrated below. The tax rate used in the example is the highest rate as listed in the Advisory Commission on Intergovernmental Relationships/Significant Features of Fiscal Federalism. The tax rate is not indicative of the experience of every investor, and a lower tax rate will have a favorable effect on the real return. Of course, past performance cannot guarantee comparable future results.

#### How Inflation and Taxes Have Affected CD Return Rates

In seven of the last 14 years, CDs earned a negative "real" rate of return. And in three of the seven positive years, CDs earned less than a 1% real rate of return. The CD rates below are represented by the Bloomberg CD 12-Month Index.

Year	CD Rate	Less Top Federal Tax Rate	Less Inflation	Real Return After Taxes and Inflation
1996	5.78	39.6	3.32	0.16
1997	5.88	39.6	1.70	1.82
1998	5.08	39.6	1.61	1.43
1999	6.51	39.6	2.68	1.21
2000	5.91	39.6	3.39	0.17
2001	2.28	39.1	1.55	-0.16
2002	1.28	38.6	2.38	-1.56
2003	1.32	35.0	1.88	-1.01
2004	3.03	35.0	3.26	-1.25
2005	4.76	35.0	3.42	-0.32
2006	5.19	35.0	2.54	0.81
2007	4.05	35.0	4.08	-1.39
2008	2.00	35.0	-0.34	1.65
2009	0.86	35.0	2.99	-2.36

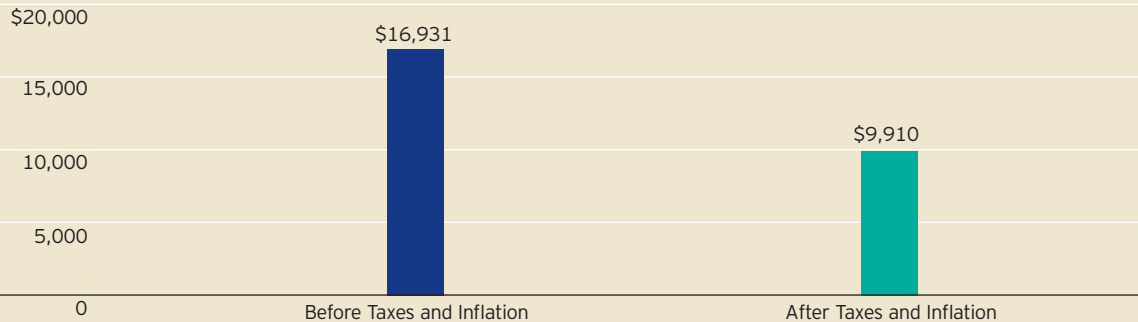
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## The negative side of CDs

Are CDs the right investment choice for you? Although benefits do exist, investing in CDs also involves risk. Because of the inherent safety and short-term nature of CD investing, yields may be lower than other, higher risk investments. And CDs sold prior to maturity may be subject to early withdrawal penalties. Investors must also consider the threat of inflation and taxes affecting returns, as illustrated below. Note that the CD rate is calculated using the 12-month average monthly CD rate reported by the Federal Reserve.

### 14-Year CD Performance Versus Inflation and Taxes

This chart represents the growth of a \$10,000 investment in 12-month CDs versus the real return after taxes and inflation are factored in, for the 14 years ended Dec. 31, 2009. As illustrated, inflation and taxes consumed all of the return that CDs provided.



Sources: Invesco, Morningstar Inc., Bloomberg L.P.

For illustrative purposes only. Real returns after taxes and inflation were calculated using the monthly inflation rate for the 14-year period ending Dec. 31, 2009. The time period shown is limited by data availability.

## Talk to a financial professional

Your sights are set on a financial summit – a college degree, new home or secure retirement. One of the best ways to help reach your goal is to partner with a strong team: a financial professional who can provide sound guidance based on your individual needs and an investment company that can deliver a broad range of diversified strategies. Talk to a financial professional about how an investment plan and Invesco can help you pursue your financial goals.

1 The basic insurance limit is set to change to \$100,000 on Dec. 31, 2013.

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*Past performance cannot guarantee future results.*

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This information does not constitute tax advice. Please consult your tax adviser for more complete information.

The FDIC insures the principal and interest of CDs up to \$250,000, while mutual funds have no such insurance. Loss of principal is possible when investing in mutual funds, while CDs have no such risk of loss of principal.

Inflation is represented by the CPI, a measure of change in consumer prices as determined by the U.S. Bureau of Labor Statistics. An investment cannot be made directly in an index. Performance reflects reinvestment of dividends.

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