A FISCAL FOOTNOTES BREAKDOWN

The CD Was Never Designed for You

What a Certificate of Deposit actually is,
what it's costing you in taxes, and what your alternatives are.

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Context Creates Clarity

The Assumption Most People Still Carry

Most people think a Certificate of Deposit is the safe choice.

And in a way, it is. Your principal is protected. The FDIC backs it up to $250,000. The rate is locked in. You know exactly what you're going to get.

But here's what you need to know: safe and smart are not the same thing.

I've spent 25 years sitting across from people who have CDs. Good people. Careful people. People who did exactly what they were told to do with their money. And almost every single one of them is surprised when I show them what their CD is actually costing them.

Not in fees. In taxes.

You're paying tax every single year on money you're not even using. And the longer that CD sits there, the more it costs you. Not because the CD is broken. Because it was never built for this job.

This guide is going to show you exactly how that works, where the CD actually came from, and what your alternatives look like. No pressure. No tricks. Just the math.

-- David, Fiscal Footnotes

How We Got Here: The Real History of the CD

The CD Was Invented to Solve the Bank's Problem

Here's something most people don't know.

The Certificate of Deposit sitting in your bank account right now was never invented for you.

In the 1950s, big banks like First National City Bank -- that's Citibank today -- had a problem. Their corporate clients were pulling cash out of checking accounts and putting it into Treasury bills, because the rates were better. Banks were hemorrhaging deposits.

So on February 20, 1961, a banker named Walter Wriston came up with a solution. He invented the negotiable Certificate of Deposit. It was designed for BIG business clients -- not regular people. The bank literally lent $10 million to a Wall Street broker to create a secondary market so these certificates could be traded between investors.

That's how CDs started. As a tool for banks to hold onto corporate money.

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In 1961, Citibank lent $10 million to a Wall Street broker to create a secondary market for CDs. Regular consumers didn't get them until later. The CD was a corporate liquidity tool that got repurposed for retail banking.

Regular consumers didn't get CDs until later, when banks realized they could lock up everyday people's money for fixed terms at modest rates. The deal was simple: you give us your money, we lock it up, and we'll pay you just enough to keep you from leaving.

Sixty-five years later, millions of Americans are still sitting on CDs, collecting modest interest, and paying tax on every penny of it every single year -- whether they need the money or not.

The CD was never designed to be YOUR retirement plan. It was designed to solve the BANK's problem.

The CD Tax Trap

Here's What the Math Actually Looks Like

Let me walk you through what I showed a gentleman on Fiscal Fridays recently. We'll call him John.

John had $500,000 sitting in one CD at the bank. He was making about 4% interest. He was proud of it. He told me, "I'm getting 4%, and I already paid the tax." He figured he was fine.

He wasn't fine. He was losing money he didn't have to lose.

	The CD (Taxed Annually)	Tax-Deferred Alternative
Starting Amount	$500,000	$500,000
Interest Rate	4%	4%
Annual Return	$20,000	$20,000
Tax Owed (Year 1)	~$4,400	$0
After Year 1	$515,600	$520,000
After Year 2	$531,824	$540,800
After 10 Years	~$672,000	~$740,000

Same starting amount. Same interest rate. The only difference is when you pay the tax.

After 10 years, that's roughly a $68,000 difference. John looked at me and said, "I've never seen it laid out like that."

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A 4% CD in a 22% federal tax bracket nets you about 3.12% after taxes. If inflation runs at 3%, your real return is 0.12%. You're standing still. You're working to keep the money you already have.

And here's the part that really gets people: when you finally DO take money out of a tax-deferred vehicle, you only pay tax on what you withdraw. Not on the whole pile every year.

What Are Your Alternatives?

The Tools That Do What People Think CDs Do

If you like CDs because they feel safe, predictable, and simple, I understand that. Those are good instincts. The question isn't whether safety matters. The question is whether you can get that same safety without the tax drag.

The answer is yes.

Fixed Annuities

A fixed annuity works a lot like a CD. You put in a lump sum. You get a guaranteed interest rate for a set period -- typically 3, 5, 7, or 10 years. Your principal is protected. The difference: your gains grow tax-deferred. You don't owe a penny in tax until you take the money out. That means your interest is compounding on the full amount, not on whatever's left after the IRS takes its share every April. And unlike a CD, there are no Required Minimum Distributions. You're not forced to take money out at 73.

Multi-Year Guaranteed Annuities (MYGAs)

A MYGA is the closest thing to a CD in the insurance world. Fixed rate. Fixed term. Guaranteed return. Principal protection. The only real difference is tax treatment -- and that difference adds up to tens of thousands of dollars over time. Think of it this way: a MYGA is a CD that doesn't send the IRS a 1099 every year.

Fixed Index Annuities

If you want a little more growth potential, a fixed index annuity ties your interest to a market index (like the S&P; 500) without putting your principal at risk. When the market goes up, you get a portion of the gain. When it goes down, you don't lose anything. Your floor is zero, not negative. These are more complex than a MYGA, and they're not for everyone. But for people who want to outpace inflation without the anxiety of market exposure, they're worth understanding.

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The FDIC insures bank CDs up to $250,000. Fixed annuities are backed by state guaranty associations, which in most states also cover up to $250,000 (some states cover more). Different mechanism, comparable protection.

The Ladder Strategy

Here's one of the smartest things you can do with any of these tools. Instead of putting $500,000 into one vehicle, split it into five.

Certificate	Amount	Term	Matures
1	$100,000	1 year	Year 1
2	$100,000	2 years	Year 2
3	$100,000	3 years	Year 3

4	$100,000	4 years	Year 4
5	$100,000	5 years	Year 5

As each one matures, you decide: do I need this money, or do I roll it into a new 5-year? If you need $100,000 for something, you take one. You only pay tax on the growth of that one. The other four keep compounding, untouched.

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Some folks call that triple compounding -- the interest grows, it compounds on itself, and you don't owe tax until you take it out. It's like an IRA, but you don't HAVE to take it out if you don't want to. No required minimum distribution forcing you to pull money you don't need.

You stay in control. You decide when to take money out and how much to take. And every year you leave it alone, it's growing on the full amount instead of the after-tax amount.

Here's the Part Worth Thinking About

Where Does This Money Go?

Here's what I asked John after we finished the math.

"John, if you don't need this money -- and you just told me you don't -- where do you want it to go?"

He paused. He hadn't thought about it.

That's common. People spend years protecting a pile of money without ever deciding who it's for. And if you don't decide, someone else will. The state. The courts. The IRS. They'll all take their share before your family sees a dime.

What Happens to a CD When You Pass Away

A CD goes into your estate. It goes through probate. Your family waits. Lawyers get paid. The government gets paid. Then, maybe, what's left gets to the people you love.

What Can Happen with Tax-Deferred Alternatives

Many tax-deferred vehicles allow you to name a beneficiary directly. That means the money passes outside of probate. It goes where you said it should go, to who you said should get it, without the courts and the state taking a detour through your wallet.

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Inheritance planning doesn't necessarily mean kids. It means making sure your money goes in the direction YOU choose. If you don't have a plan, the state has one for you -- and you probably won't like it.

This is worth asking yourself before your next CD renews. The bank will happily roll it over for another 12 months. But what happens to it when you're gone?

We ask that question on day one.

When a CD Is Still the Right Tool

I'm not here to tell you CDs are evil. They're not. There are situations where a CD is exactly the right choice.

- Short-term parking. If you need money in 6 to 12 months for a specific purpose -- a home purchase, a large planned expense, a bridge between income sources -- a short-term CD keeps it safe and earns a little interest.
- Emergency reserves. Some people keep 3 to 6 months of expenses in a CD ladder as part of their emergency fund. That's reasonable. The tax drag on a small, short-term CD is minimal.
- When you genuinely need the money soon. If you're going to spend it within a year or two, the tax-deferral advantage is small. Keep it simple.

The rule of thumb is this: if you're sitting on a CD and you DON'T need the money -- if it's just sitting there growing and you're paying tax on it every year for the privilege of not touching it -- that's when it's time to look at alternatives.

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The best time to review your CDs is before they auto-renew. The second best time is today. Most banks auto-renew CDs at maturity. If you miss the window, your money is locked up again at whatever rate the bank decides to give you.

What 25 Years of Conversations Have Taught Me

After sitting with thousands of families, I've seen the CD conversation play out the same way hundreds of times.

People hold CDs because they were told it was safe.

It's not stubbornness. It's not ignorance. The bank said it was safe, and that was true. But here's what else is true: there's a better version of safe. One that doesn't send the IRS a check every year.

The tax surprise hits hardest in retirement.

When you're working, CD interest is just another line on a complicated return. When you're retired and every dollar of income matters for IRMAA brackets, Social Security taxation, and your overall tax picture, that CD interest can quietly push you into higher costs you never anticipated.

People think "guaranteed" means "best."

A CD guarantees your rate. So does a MYGA. So does a fixed annuity. The guarantee isn't unique to CDs. What IS unique to CDs is that you pay tax on the guarantee every single year.

The biggest regret is always the same.

"I wish I'd seen this ten years ago." That's what they say. Not because the math is complicated. Because two columns on a whiteboard is all it takes to see the difference.

Your CD Review Checklist

Print these pages. Check items off as you go.

Gather Your Information

[ ] Pull your most recent CD statement(s) from the bank

[ ] Write down the current interest rate on each CD

[ ] Note the maturity date for each CD (when does it auto-renew?)

[ ] Look at last year's tax return -- find the 1099-INT from your bank

[ ] Calculate how much tax you paid on CD interest last year

[ ] Ask yourself: did I use any of that interest, or is it just sitting there?

Run the Comparison

[ ] Calculate your net return after taxes (rate minus your tax bracket %)

[ ] Compare that to current inflation (is your real return positive or negative?)

[ ] Ask your advisor to show you the same amount in a tax-deferred vehicle

[ ] Look at the difference over 5 years and 10 years

[ ] Factor in your state income tax if applicable

Think About the Bigger Picture

[ ] Do you need this money in the next 12 months?

[ ] If not, is there a reason it needs to stay at the bank?

[ ] Who inherits this CD if something happens to you?

[ ] Does the CD go through probate, or do you have a beneficiary designation?

[ ] Have you reviewed your overall retirement income plan recently?

Take Action

[ ] Schedule a conversation with an advisor before your next CD matures

[ ] Bring your CD statements and last year's tax return

[ ] Ask them to run the two-column comparison with YOUR numbers

[ ] If the CD still makes sense for your situation, keep it -- no pressure

[ ] If the math shows a better path, take the next step

Understanding Your Options Is the First Step

A CD isn't a bad product. It's a product that was designed for a different purpose.

Once you understand where it came from and what it actually costs you in taxes every year, the decision becomes clear.

This isn't about taking risk. It's about keeping more of what's already yours.

Context creates clarity. And clarity creates confidence.

If you want help running the numbers on your own CDs -- no pressure, no obligation -- the team at American Retirement Advisors is here to help.

Book a No-Cost Discovery Session

123easy.com/retirement-discovery-session-booking-page

Or call: (602) 281-3898

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