What's the real return on CDs?

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, 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 reported by the Internal Revenue Service (IRS). 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.

After taxes and inflation, CDs have earned a negative "real" rate of return in 14 of the last 16 years.

Taxes and inflation erode returns (%)
In 14 of the last 16 years, CDs earned a negative "real" rate of return.

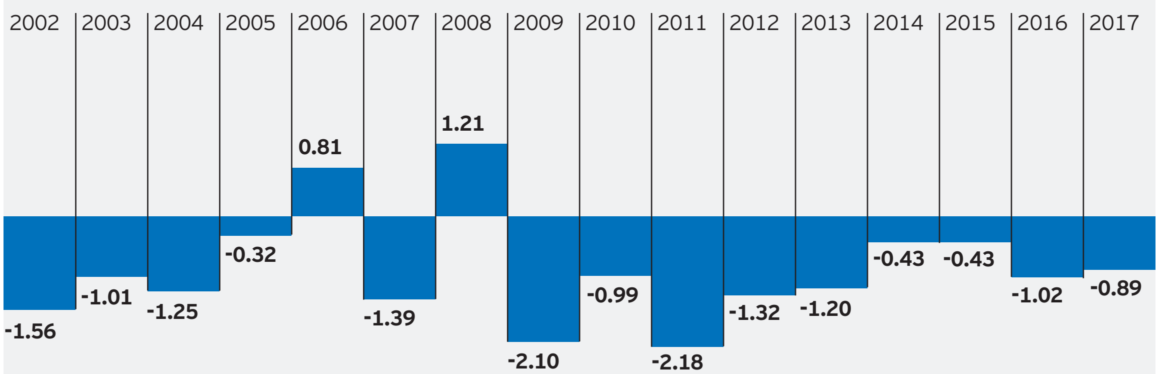


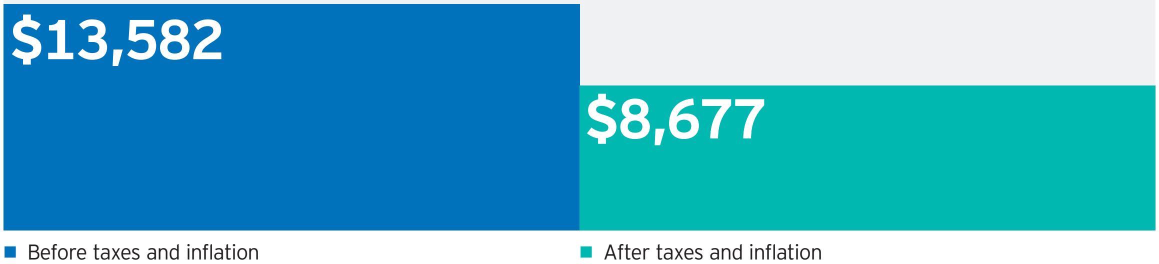
Chart reflects real return after taxes at the top federal tax rate for each year as reported by the IRS and inflation as represented by the Consumer Price Index (CPI). Chart also reflects CD rates for each year as represented by the Bloomberg CD 12-Month Index. Sources: Invesco, Bloomberg L.P., Morningstar Inc., and IRS.gov. *Past performance is no guarantee of future results.*

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, and the tax rate is the highest rate as reported by the IRS.

After 16 years, taxes and inflation can put CD investors in the red

Growth of $10,000 investment in 12-month CDs versus real return after taxes and inflation for the 16 years ended Dec. 31, 2017.



Sources: Invesco, Bloomberg L.P., Morningstar Inc., and IRS.gov.

For illustrative purposes only. Real returns after taxes and inflation were calculated using the monthly inflation rate for the 16-year period ending Dec. 31, 2017. The time period shown is limited by data availability.

Talk with your financial professional

Finding investments that offer both risk awareness and the possibility of positive "real" returns requires a deep understanding of markets and financial instruments. Your financial professional can help you find an investment that meets your needs.