

# WHAT IS THE REAL RATE OF RETURN ON CDs?

In saving for retirement, you may be investing some of your “safe money” in a certificate of deposit (CD). CDs can offer:

- Low risk.
- Short-term fixed interest rates.
- Insurance by the Federal Deposit Insurance Corporation (FDIC).

However, have you considered the impact that taxes on interest and adjustments for inflation may have on your overall rate of return? Generally, the interest received in these types of vehicles may not keep pace with inflation. This could mean lower purchasing power for you over time. Also, at renewal, a new rate along with a new withdrawal penalty may apply.

In 19 of the past 30 years, CDs have had a negative return (after taking into account the impact of taxes and inflation), and in six of the positive years, they earned less than a 1% real rate of return.

Generally, CDs are part of the FDIC insurance amount of \$250,000 per depositor, per bank. The CD return rates on the right are calculated using the six-month annualized average monthly CD rate as reported by the Federal Reserve. The tax rate used in the example is the highest marginal federal income-tax rate based on \$100,000 of taxable income for a married couple filing jointly. The tax rate is not the experience of every investor, and a lower tax rate may have a more favorable impact on the real return. Past performance does not guarantee future results.

Year	Annualized Average Six-Month CD Rate <sup>1</sup>	Taxes <sup>2</sup>	Inflation Consumer Price Index (CPI) <sup>3</sup>	Real Return after Taxes and Inflation
1990	7.46%	33.0%	6.1%	-1.10%
1991	5.44%	31.0%	3.1%	0.65%
1992	3.54%	31.0%	2.9%	-0.46%
1993	3.12%	31.0%	2.7%	-0.55%
1994	4.64%	31.0%	2.7%	0.50%
1995	5.56%	31.0%	2.5%	1.34%
1996	5.08%	31.0%	3.3%	0.21%
1997	5.18%	31.0%	1.7%	1.87%
1998	4.83%	28.0%	1.6%	1.88%
1999	4.75%	28.0%	2.7%	0.72%
2000	5.90%	28.0%	3.4%	0.85%
2001	3.34%	27.5%	1.6%	0.82%
2002	1.68%	27.0%	2.4%	-1.17%
2003	1.05%	25.0%	1.9%	-1.11%
2004	1.58%	25.0%	3.3%	-2.12%
2005	3.39%	25.0%	3.4%	-0.86%
2006	4.81%	25.0%	2.5%	1.11%
2007	4.44%	25.0%	4.1%	-0.77%
2008	1.62%	25.0%	0.1%	1.12%
2009	0.28%	25.0%	2.7%	-2.49%
2010	0.20%	25.0%	1.5%	-1.35%
2011	0.10%	25.0%	3.0%	-2.93%
2012	0.13%	25.0%	1.7%	-1.60%
2013	0.09%	25.0%	1.5%	-1.43%
2014	0.06%	25.0%	0.8%	-0.76%
2015	0.16%	25.0%	0.7%	-0.58%
2016	0.45%	25.0%	2.1%	-1.76%
2017	1.05%	25.0%	2.1%	-1.31%
2018	2.09%	22.0%	1.9%	-0.27%
2019	2.05%	22.0%	2.3%	-0.70%

Please refer to the back page for source information and details.

Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state.

**No bank guarantee • Not a deposit • May lose value  
Not FDIC/NCUA insured • Not insured by any federal government agency**

## Here's a quick way to determine your CD's real rate of return.

Step 1	$\frac{\text{_____}}{\text{(guaranteed interest rate)}}\%$	$\times$	$\frac{\text{_____}}{\text{(your federal tax bracket)}}\%$	$=$	$\frac{\text{_____}}{\text{(percent taken in taxes)}}\%$
Step 2	$\frac{\text{_____}}{\text{(guaranteed interest rate)}}\%$	$-$	$\frac{\text{_____}}{\text{(percent taken in taxes)}}\%$	$=$	$\frac{\text{_____}}{\text{(rate of return after tax)}}\%$
Step 3	$\frac{\text{_____}}{\text{(rate of return after tax)}}\%$	$-$	$\frac{\text{_____}}{\text{(current inflation rate)}}\%$	$=$	$\frac{\text{_____}}{\text{(real rate of return)}}\%$

Talk with your financial professional today  
about how to reach your long-term financial goals, or  
visit our website at [PacificLife.com](http://PacificLife.com).

<sup>1</sup>Annualized average six-month CD rate: [www.federalreserve.gov/releases/h15/data.htm](http://www.federalreserve.gov/releases/h15/data.htm) (1990–2019);  
<https://www.bls.gov/cpi/tables/supplemental-files/historical-cpi-u-202004.pdf>.

<sup>2</sup>Highest marginal federal income-tax rates based on \$100,000 income for a married couple filing jointly: <http://taxfoundation.org/article/2019-tax-brackets>.

<sup>3</sup>Inflation rates are based on the Consumer Price Index (CPI), a measure of change in consumer prices as measured by the U.S. Department of Labor's Bureau of Labor Statistics: [www.bls.gov/cpi](http://www.bls.gov/cpi).

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