

What's the Real Return on 12-Month CDs?

A lot lower than you may think

Low interest rates make life difficult for people who save their money or rely on their investments for income. Twelve-month CD rates have been below 2% since 2008, and they were just 0.39% at the end of 2020. When you factor in taxes and inflation, 12-month CDs have provided negative real returns 17 out of the last 20 years and haven't offered a positive real return since 2008.

Inflation and Taxes Have Had a Significantly Negative Effect on CD Return Rates

Year	12-Month CD Yield (%) ¹	Taxes (%) ²	Inflation (%) ³	Real Return After Taxes & Inflation (%)
12/31/2001	2.71	28	1.60	0.36
12/31/2002	1.99	27	2.48	-1.03
12/31/2003	1.73	25	2.04	-0.74
12/31/2004	2.58	25	3.34	-1.41
12/31/2005	4.22	25	3.34	-0.18
12/31/2006	4.91	25	2.52	1.16
12/31/2007	4.43	25	4.11	-0.79
12/31/2008	2.65	25	-0.02	2.01
12/31/2009	1.44	25	2.81	-1.73
12/31/2010	0.96	25	1.44	-0.72
12/31/2011	0.77	25	3.06	-2.48
12/31/2012	0.69	25	1.76	-1.24
12/31/2013	0.67	25	1.51	-1.01
12/31/2014	0.70	25	0.65	-0.13
12/31/2015	0.62	25	0.64	-0.18
12/31/2016	0.59	25	2.08	-1.64
12/31/2017	0.80	25	2.12	-1.52
12/31/2018	1.29	22	1.94	-0.93
12/31/2019	1.14	22	2.29	-1.40
12/31/2020	0.39	22	1.29	-0.99

Certificates of Deposit (CDs) are short-term investments that pay fixed principal and interest, are insured by the FDIC up to \$250,000, and are subject to changing renewal rates and early withdrawal penalties. The chart uses the highest marginal federal income tax rate based on \$100,000 of taxable income for a married couple filing jointly for each calendar year. The tax rate is not representative of the experience of every investor. A lower tax rate would have a favorable effect on the real return.

Past performance does not guarantee future results.

Data Sources: Bloomberg, FactSet, and Hartford Funds, 1/21.

¹CD rates are proxied by BankRate.com's 12-month CD national average.

²Taxpolicycenter.org

³Inflation rates are based on the Consumer Price Index (CPI), a measure of change in consumer prices as determined by the US Bureau of Labor Statistics.

Client Conversations

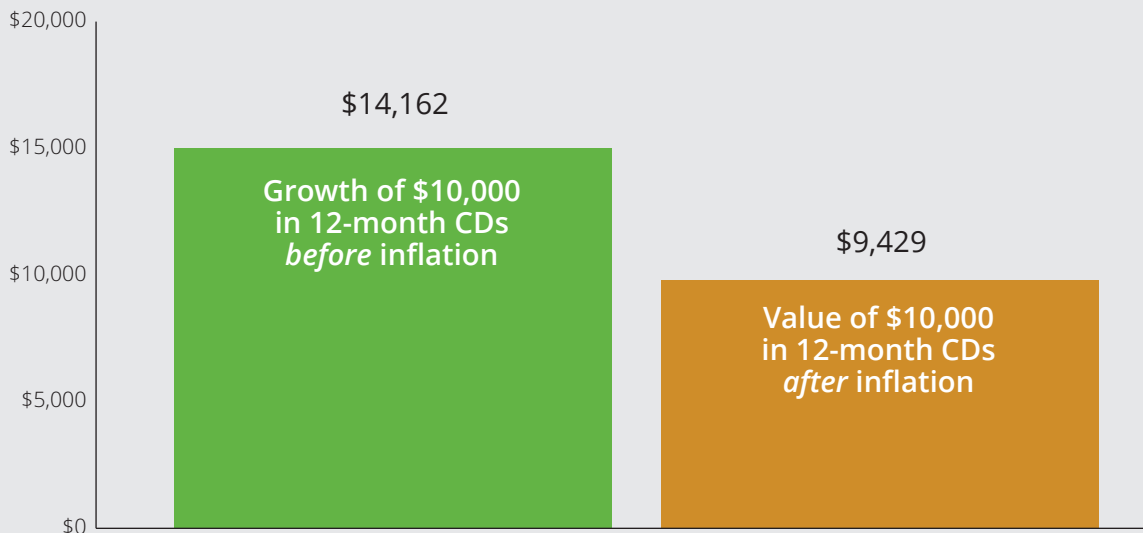
Are CDs the Right Choice for You?

Although there are benefits to investing in CDs, there are also risks. Because of the inherent safety and short-term nature of CDs, the interest rate is usually lower than investments with higher risk. In addition, CDs sold prior to maturity may be subject to early withdrawal penalties. Investors should also

consider the impact of inflation on CD returns. CD income in the illustration below is calculated using the 12-month annualized average monthly CD rate.¹

Inflation Eroded the Entire Return of CDs Over the Past 20 Years

This chart illustrates the growth of a hypothetical \$10,000 investment in 12-month CDs before and after inflation from December 31, 2001 to December 31, 2020. **Inflation consumed nearly the entire return of CDs over this period.** (Inflation is measured by the Consumer Price Index.)³



Data Source: Bloomberg, FactSet, and Hartford Funds, 1/21. From 12/31/01-12/31/20, the average annual return for 12-month CDs was 1.76%; the average annual return for Inflation (Consumer Price Index) was 2.09%.

Talk to your financial professional today about investments with the potential to outpace taxes and inflation.

Investing involves risk, including the possible loss of principal.

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