It’s Your Money

Do You Own A CD Purchased During The Pandemic?

As most of us who have savings accounts or certificates of deposit (CDs) know, interest rates have been pathetically low over the last two years. We would have been better off putting our money under a mattress than buying a CD! That all changed earlier this summer when inflation started rearing its ugly head, and interest rates started rising above the 0% level. Bottom line, if you bought a CD more than 6 months ago, please pay attention to the following information. If your eyes glaze over at the math, at least read the **bold** paragraph at the end of this article.

If you bought a 36-month CD in early 2022 (or prior) you earned an extremely low interest rate (the national average was 0.16%). While those 36-month CDs purchased early in 2022 have NOT matured yet, it might be worth your time and money to discuss withdrawing your savings from that CD and re-purchasing a new CD at today’s rates. In most cases there will be a penalty for early withdrawal, but you can probably recoup that penalty, and more, by earning interest at the new/current CD rate. Here is an example of how this would work at Wright Patt Credit Union:

The Council’s Financial Advocate is a volunteer who can help with financial matters. If you are in need of assistance, please contact the Council.

$1,000 CD purchased 1 Jan 2022 with a 36-month maturity, interest rate **0.6%**

- Potential interest earned: $6 per year (simple interest) x 3 years = $18 at maturity
- Penalty for early withdrawal on 31 Dec 2022 (2 years early) at WPCU:
  - Original Term between 36-47 Months: Amount of Penalty = 9 Months of Dividends
    - 9 months penalty: $6 x 9/12 = **$4.50 penalty**
    - Cash out at Withdrawal = $1,000 + $6 (1year interest) - $4.50 penalty = **$1,001.50** if withdrawn on 12/31/2022

$1,000 reinvested in a new 24-month CD on 1 Jan 2023, interest rate **2.43%**

- Potential interest earned: $24.30 per year (simple interest) x 2 years = **$48.60** at maturity

The result of this exercise is that if you had done nothing, your original $1,000 CD would have earned $18 for the original 36-month CD term.

Since you withdrew early, you only netted $1,001.50 instead of $1,018 on your original CD, but now you can invest the original $1,000 in a new 24-month CD earning a significantly higher

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interest rate, and in Dec 2024 your total (potential) cash value is $1,000 + $24.30 interest for year 2 + $24.30 for year 3 = $1,048.60.

By withdrawing early, paying a penalty, and reinvesting at a much higher rate for the last 2 years, you gain $32.10 ($1.50 year 1 interest + $48.60 year 2 & year 3 interest- $18.00 original CD 3 year interest).

You might be tempted to scoff at a mere $32.10, but if you had started with $10,000 rather than $1,000, the gain would be $321.00, or $3210.00 for a $100,000 investment. Why let the bank keep this extra interest rather than you?

Bottom line: if you have an existing CD earning a very low interest rate purchased in early 2022 (or earlier), it almost certainly will benefit you to withdraw early (now), pay a penalty, and reinvest the proceeds at a new higher CD rate. Even after paying a penalty for early withdrawal, you should come out ahead.

If you have questions about this subject, you are encouraged to contact your Council at (937) 376-5486. Or you can make an appointment with your bank to discuss and take action.