

For Savers...

When looking forward to retirement, college or any other future expenditure, the main concern is not the dollar value of your savings, but rather the future real purchasing power of those savings. By investing your retirement savings in inflation linked CDIPs, you can be certain that your principal investment will keep pace with inflation, while also generating income along the way to ensure that your savings will grow in real terms.

For Retirees...

Retirees who must live off the income generated by their investments for 20 to 30 years or longer often worry about outliving their savings. Because their portfolio income buys a little less each year due to inflation, they may be forced to tap into principal to maintain the same lifestyle. This only compounds the problem by leaving less income generating assets in subsequent years. CDIPs pay interest that increases as the price of the goods and services you buy increase; and the additional interest paid at maturity preserves the income producing power of your savings throughout retirement.

For any Investor...

Investors with a well thought out asset allocation strategy often seek investments that tend to move with inflation, thereby offsetting the negative effect inflation can have on their other investments. But the market values of these asset classes can be influenced by a host of events, and don't always move in step with the general level of prices in the economy. CDIPs are directly linked to CPI, so they provide an effective hedge against inflation, may be more liquid than many real assets, and are available in \$1,000 denominations, which simplifies portfolio rebalancing over time.

Secondary Market

CDIPs are most suitable for purchasing and holding to maturity. However, investors may find it necessary to dispose of CDIPs prior to maturity. Like other brokered CDs, CDIPs are traded in the secondary market, which provides an opportunity for investors to sell their CDIPs at the prevailing market levels, which may be more or less than the original amount invested.

CDIPs is a registered service mark of LaSalle Bank National Association.

What are the Risks of CDIPs?

The fixed interest rate on CDIPs will typically be somewhat lower than that available on traditional CDs of comparable maturity. *This is because the CDIP investor expects to receive additional income in the form of the inflation adjustment paid at maturity.* Should actual changes in CPI fall short of expectations, the CDIP investment may underperform traditional CDs that could have been purchased instead. A decrease in the CPI due to deflation will reduce the total amount of interest paid during the holding period. If a CDIP is sold prior to maturity, its value will be subject to full market considerations, including, but not limited to, interest rate changes, which could result in a significant loss from the initial investment amount.

What are the Tax Implications of CDIPs?

The interest payments on CDIPs are taxable when received. In addition, the inflation adjustments to the base amount are taxable in the year in which such adjustments occur even though the investor won't receive the additional interest until the CD matures. For this reason, it may be advantageous to hold CDIPs in a tax-deferred account such as a 401(k) or IRA.

¹ Source: U.S. Department of Labor's Bureau of Labor Statistics inflation calculator (www.bls.gov)

² Additional information about the Consumer Price Index can be found at www.bls.gov

³ For additional information about FDIC insurance and maximizing insured accounts, please refer to the website www.FDIC.gov and/or the FDIC brochure "Questions and Answers About Your Insured Deposit".

Call your financial consultant:

Ask how Certificates of Deposit: Inflation-Protected can be part of your investment future today!

Member Firm Name



**A GUIDE TO UNDERSTANDING
CERTIFICATES OF DEPOSIT:
INFLATION-PROTECTED
(CDIPsSM)**



A GUIDE TO UNDERSTANDING CERTIFICATES OF DEPOSIT: INFLATION-PROTECTED (CDIPs)

Certificates of Deposit: Inflation-Protected (CDIPs)

How does Inflation affect Investments?

Inflation is a sustained rise in the general level of prices of consumer goods and services. Inflation poses a problem for all investors, including holders of fixed-income investments, because the effects of inflation can erode the real value and purchasing power of payments received in the future. To illustrate, it takes \$12,726 in 2003 to buy what could be purchased for only \$10,000 in 1993¹. For investors who rely on the stability and predictability of fixed-income investing, finding ways to limit or mitigate the effects of inflation are crucial.

Certificates of Deposit: Inflation-Protected

CDIPs are a new investment alternative created to assist in offsetting the effects of inflation. These innovative CDs are similar to U.S. Treasury Inflation-Protected Securities (TIPS), where the principal amount is adjusted periodically to reflect changes in inflation. CDIPs pay a stated fixed rate of interest like a traditional CD, however interest is paid semi-annually on an inflation adjusted base amount, not the original investment amount. At maturity, additional interest is paid equal to the total increase (if any) of the inflation adjusted base over the original investment. Thus, both the final payment at maturity and the periodic interest payments increase as inflation rises.

Like TIPS, CDIPs use the non-seasonally adjusted Consumer Price Index for All Urban Consumers² (CPI) as a reference to measure inflation. CPI is the most widely recognized indicator of the changes over time in prices of consumer goods and services in the United States. On each semiannual interest payment date, the base amount on which interest is paid is adjusted to reflect the change in CPI since the previous interest payment date. Thus, if prices (as measured by CPI) have risen 2%, the inflation adjusted base will also increase by 2%. Semiannual interest is determined by applying the stated interest rate of the CD to this inflation adjusted base.

CDIPs may not be suitable for all investors. Please read the disclosure materials provided by your financial consultant carefully before investing.

Example: Assume you invest \$1000 in a new CDIP paying 2% interest. On the first interest payment date CPI indicates that inflation has been 1% for the 6-month period. The CDIP's inflation adjusted base increases to \$1010 and the interest payment is \$10.10 (\$1010 times 1/2 of 2%). After a full year CPI indicates that inflation was 3%, bringing the inflation adjusted base to \$1030 and the second semi-annual interest payment to \$10.30 (\$1030 times 1/2 of 2%).

At maturity, the investor will receive additional interest if the inflation adjusted base is greater than the original amount invested. This is likely to be the case because prices tend to rise when viewed over a period of several years, even if there are brief periods of deflation (decreasing prices) along the way. In fact, the last time CPI decreased over a five year period was more than 50 years ago. Even so, *should the inflation adjusted base at maturity be less than the initial investment, the final payment will never be less than the amount invested.*

Potential CDIP Benefits for Investors

Ensure a “real” return over inflation

With traditional fixed rate investments there can be no assurance that the interest earned will keep pace with inflation. Therefore, you could find that while you've been earning 4% on your money, prices have increased by 5% per year; leaving you able to buy fewer goods and services than when you started. With CDIPs you lock in a return equal to the inflation rate *plus* the stated interest rate, thereby ensuring that your total return will always outpace inflation.

Interest protection from inflation

As any retiree who has ever lived on a fixed income can tell you, that same interest check buys a little bit less each year. Over time, retirees can find that inflation is chipping away at their buying power...and their quality of life. With CDIPs, when prices increase, interest payments increase as well.

Wide range of maturity dates

CDIPs may be issued with maturities ranging from 5-10 years, allowing investors to structure a portfolio to specific time horizons.

Diversify investment risk

Investors who are looking to maximize return for a given level of risk through the most efficient asset allocation often include “real” assets such as real estate and commodities in their portfolio. CDIPs offer the same diversification benefits in that they are a distinct and separate asset class from either equities or traditional bonds. However, because they track the price level of a broad basket of goods and services, they are less susceptible to shocks that may affect the value of other real assets.

FDIC insurance coverage

CDIPs are backed by the full faith and credit of the U.S. Government through Federal Deposit Insurance Corporation (FDIC) insurance. The current limit is \$100,000 (including principal and interest) for all deposits held in the same capacity per depositor, per institution³. If the issuing bank fails before the maturity date, any positive difference between the inflation adjusted base and the deposit amount may not be eligible for FDIC insurance coverage.

Estate Feature

A valuable feature of CDIPs is commonly referred to as the survivor's option, which is designed to protect estate assets. This provision allows for the full withdrawal of the principal and interest in the event of the death or adjudication of incompetence of the beneficial owner, regardless of whether the current market value has fallen. It is important to note that very few fixed-income investments offer this attractive feature.

Who Invests in CDIPs?

CDIPs generally attract investors who are looking to protect the “real” value of their savings from the effects of inflation. Individual Americans saving for their retirement or for other long-term purposes, including their children's education, could be candidates for this type of investment. Individuals already in retirement have even more incentive to protect the assets they have from the negative effects of inflation, as they are no longer making contributions to their nest egg. CDIPs address the concerns of each of these investors.