PERSONAL FINANCE

Is a Long-Term CD the Best Option for Saving?

CDs offer good rates and guaranteed returns. However, are they the best option for longer range savings goals?

Picture this: You're near retirement. In a few years you'll be able to take dream vacations, spend more time with your children and grand kids, and take up some hobbies you've been forgoing. And if you're planning on a larger purchase in the next three to five years, you might consider savings vehicles to help you get there.

One of the best saving options is a certificate of deposit. A CD is an investment option that allows you to store your money in it for specified term. Terms range from 3 months to 10 years. Perks of choosing CDs are they offer good rates of return, they're easy to set up and they offer guaranteed returns on investment.

However, it's important to consider the other side of that too. Before parking your money in a CD, consider these three risks.

1. You could miss out on higher interest rates

One of the benefits of a CD is it offers a fixed interest rate. Currently, that isn't bad, as you can earn over 4% on CDs ranging from three to five years.

There's good and bad news, though. The good news is the Federal Reserve didn't cut interest rates at its latest meeting. It means savings rates on CDs and high-yield savings accounts didn't dip.

However, there's the other side of the coin. Inflation continues to rise, meaning the Fed might not cut rates in the future. In fact, there could be a situation where they reverse course and increase rates, similar to how they did the past few years. So if you lock in a rate now, you could miss out on a higher rate in the future.

2. Inflation could outpace earnings

The core inflation rate sits at 3.26% currently. It means if you're able to lock in a longer-term CD at a rate above this, you're outpacing inflation.

The problem is inflation doesn't show signs of slowing down. In fact, it's increasing, thanks to rising food, energy and goods prices.

There are many factors contributing to increased prices. The bird flu has raised egg prices significantly, while president Donald Trump's tariffs could increase grocery and housing prices. Therefore, if inflation continues to rise, it can diminish or eliminate the returns you have on a longer-term CD.

3. You could miss better opportunities

Tying up your money in a CD is beneficial in that you won't be able to use it until your term expires. If you withdrawal your money early, many banks will close the CD and assess you an early withdrawal fee, offsetting some or all of the interest earned on your CD.

Moreover, by tying up your money for a long time, you could be missing out on other opportunities that grow your money quicker. Opportunities in the stock market do present higher risk, but they also come with better returns historically.

Therefore, you'll want to tow the line between how much risk you're willing to accept in return for higher rates of return.

Short-term alternatives

One option is to try short-term CDs while we wait to see how the market responds. You can get CDs in one-year increments. It allows you to take some of your money to earmark it for future purchases, but it also opens the door to liquidity in the near future. If rates drop more or a better investment opportunity presents itself, you'll be able to capitalize quicker.

Another choice is to wait it out and put some of your money in a high-yield savings account. The benefits to this approach is you'll earn a similar rate of return a CD offers, with the flexibility to pivot investments any time you need to.

The difference being savings accounts have variable interest rates. So, if the Fed does cut rates again, your rate will likely drop, putting you in a situation where inflation could eat up all of your interest. The good news is you can adjust accordingly much quicker with a savings account. With a CD, you must decide whether to keep it or pull the funds and eat the cost.\

The bottom line

Long-term CDs offer savers a good rate and a guaranteed return on investment. Before signing up for one, keep these risks in mind so you'll feel more comfortable about your choices.

Furthermore, you might consider short-term alternatives like a high-yield savings account or a shorter term CD. With both, you can ride out the market and have quicker access to cash if better opportunities present themselves, while reaching your savings goals.

NYSUT NOTE: You can start small and save big with the NYSUT Member Benefits Corporation-endorsed Synchrony Bank Savings Program. Savings options include

CDs, high-yield savings accounts, and money market accounts. NYSUT members have access to special rates for Synchrony Bank's great plans.

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Sean is a veteran personal finance writer, with over 10 years of experience. He's written finance guides on insurance, savings, travel and more for CNET, Bankrate and GOBankingRates.