Savings Tools

Advanced Level

Depository institutions offer secure accounts to store money that is saved. These accounts are known as **savings tools.**

There are four common types of savings tools: checking accounts, savings accounts, money market deposit accounts, and certificates of deposit, ordered from lowest to highest rates of interest typically paid. Certificates of deposit (CD) generally pay the highest rate of interest, but they have specific maturity dates (for example, 6 months, 12 months, 24 months). This means the bank agrees to pay a specified interest rate for the time period, but if you want to withdraw your funds early (prior to the full maturity) you would typically pay a penalty in the form of lost interest.

Savings tools are ideal for storing emergency savings because:

- Savings tools are secure - As long as the specific depository institution is insured and you stay within the coverage limits your money is secure when deposited in one of the four savings tools.
- Savings tools are liquid – **Liquidity** is defined as how quickly and easily an asset can be converted into cash. The degree of liquidity varies for each savings tool, but in general, it is quick and easy to withdraw money.

Each savings tool has different features including interest rates and liquidity. View the "Choosing a Savings Tool" table to learn about the features of each tool.

Choosing a Savings Tool

When determining which savings tool is the most appropriate for your financial goal consider:

- Amount of funds you have available
- Purpose of the money saved
- When the money saved is needed
- Liquidity of the savings tool
- Interest earned
- Specific requirements of the savings tool, such as minimum balance requirements and time restrictions
- Fees charged
- Other factors specific to your financial goals

It is important to match your specific needs to the appropriate savings tool. For example, if you would like to build emergency savings, liquidity is important so the money must be easily accessible. A savings account would work well to reach this goal because the funds in a savings account are very liquid. A certificate of deposit (CD) would most likely not be the most appropriate savings tool because the funds in a CD aren't accessible (without penalty) until the maturity date.

In addition to choosing a specific type of savings tool, you will also want to analyze the features of specific savings tools among depository institutions. The terms and conditions (such as interest rates, fees, minimum balance requirements, etc.) vary between depository institutions.

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Choosing a Savings Tool

	Definition	Interest	Liquidity (accessibility)	Features
Checking Account	An account at a depository institution that provides an easy method for withdrawing or depositing money.	Some earn interest but most do not. If a checking account does earn interest, the interest rate is usually the lowest of any of the savings tools.	The most liquid of all the savings tools. A checking account allows you to deposit money for safe keeping and then use that money at any time by writing checks, using a debit card, and/or withdrawing cash from the account.	• Popular among consumers, because checking accounts reduce the need to carry large amounts of cash and are easy to use and manage. • Different types of checking accounts are available and the requirements for each are different. Some require a minimum balance, charge transactions fees, or have limits on the number of checks written each month. Learn all of the requirements and restrictions before opening a checking account. • Also known as a share draft account at a credit union • Because checking accounts are very liquid and most likely don't earn interest, they are not recommended as the only account in which to save money.
Savings Account	An account at a depository institution that is designed to hold money not spent on current consumption.	Earn interest, but have lower interest rates compared to other savings tools except checking accounts.	More liquid than everything except checking accounts. Money is easily accessed via the depository institution or an ATM.	• Great account for storing emergency savings funds • Savings accounts may help a person save money easier than a checking account, because the money isn't as accessible. • The number of monthly withdrawals may be limited. If the withdrawal limit is reached, the owner of the account will be charged a fee. • There are different types of savings accounts with different features and some may require a minimum balance. Learn about all requirements, restrictions, and fees before opening a savings account. • Also known as a share account at a credit union
Money Market Deposit Account	An account at a depository institution that usually has minimum balance requirements and tiered interest rates.	Offer tiered interest rates. **Tiered interest rates** mean the amount of interest earned depends on the account balance. For example, a balance of $10,000 may earn a higher interest rate than a balance of $2,500. Interest rates for all deposited fund amounts are usually higher than savings accounts.	Less liquid than checking and savings accounts, because money market deposit accounts have minimum balance requirement and are limited to a certain number of transactions each month.	• Similar to a savings account but earn higher interest rates and has higher minimum balance/deposit requirements. • Customers are usually required to deposit a minimum amount to open a money market deposit account (typically $1,000) and maintain that minimum balance.
Certificate of Deposit (CD)	An account at a depository institution that is used for a fixed period of time and allows restricted access to the funds deposited.	Varies depending upon the specified time length and amount of money deposited. In most cases, the longer the length of the CD and the higher the deposited funds, the higher the interest rate will be.	The least liquid savings tool. If the funds are withdrawn before the end of the designated time period, the owner will be assessed penalty fees.	• Deposits have to be held for a certain length of time; time periods usually range from seven days to ten years or more. However, specific time periods offered will vary between depository institutions. • Deposits can range from $100 to $250,000. • If funds are held for the designated time period, then there is limited risk and no fees.

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