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## Which Short Term Savings Account is Right for You?

So, you have been able to set aside some of your hard-earned money. Congrats! Now you need a place to keep it safe and accessible. There are three common short-term savings accounts that are offered by federally insured banks. They are savings accounts, money market accounts, and certificates of deposit (CDs). Each option comes with different advantages and disadvantages. Knowing and understanding these differences will help you determine which of these accounts would be best for you and your financial goals.

One of the biggest differences between these three accounts is the interest rate. Before we dive much deeper, I want to take a moment to pose the question, “What is an interest-bearing account and why does it matter?” An interest-bearing account is an account that gives you interest for the money you deposited. That basically means you get paid to keep your money in one place. If you are new to the concept of interest, you might be asking the question, “why?”. Well, when you deposit money into a high interest account, the bank uses that money to either make investments or offer loans to other clients. A portion of that revenue is given back to you through interest.

Let’s start with the most basic of these three accounts. **The Savings Account.** This is a deposit account that earns interest and is held by the bank. The interest rate on these accounts may fluctuate occasionally but they will remain low. These accounts typically have low minimum balance requirements and fees. Some savings accounts may also have limitations on monthly withdrawals. These accounts are very accessible and are usually compatible with electronic transfers. Sometimes they even offer a debit card to withdrawal the money from an ATM at your convenience. If a low minimum balance and quick and easy access are attributes you need from an account, then a savings account may be the right decision for you. Be sure to ask plenty of questions when opening your

account. No two banks offer the exact same products and you want to be sure to know exactly what you are signing up for when opening a new account.

The next account to know about is the **Money Market Account**. This deposit account is like a savings account but has some important differences. Like a savings account, money market accounts are accessible. Most give you the availability to write checks, make ATM withdrawals, and perform electronic transfers. The interest rates on these accounts are typically higher and sometimes tiered so that the more money you have in your account, the higher your interest rate is. These accounts tend to have a high minimum deposit to avoid fees and may also have a limited number of withdrawals per month. If you have a large amount of cash that you would like to put into a savings account but still need access to it, this might be the right account for you. Below is an example of a tiered interest rate money market account.

<u>Account Balance</u>	<u>Interest Rate</u>
\$0.01 - \$2,499.99	0.15%
\$2,500 - \$9,999.99	0.20%
\$10,000 – \$24,999.99	0.30%
\$25,000 and over	0.45%

The third common savings account that people utilize are **Certificates of Deposit**, or CDs. The largest, and most important difference is that there are penalties for making a withdrawal prior to your accounts maturity, meaning your money is less liquid (accessible). When choosing to purchase a CD, you also choose the term length. For example, if you decide to purchase a CD with a 3-year term length, you cannot withdrawal any of that money for three years, or until the account is “mature”. Doing so will result in penalties. You will not have access to your deposit through checks, ATM transactions, or electronic transfers. I am sure you are wondering, “Okay, so are there any advantages of opening these types of accounts?” The answer is YES! CDs tend to have much higher interest rates

than both savings accounts and money market accounts. If you have extra money on hand that you can afford to set aside, you can accrue interest and profit off your money (assuming you hold your account to maturity). Another benefit is that your interest rate is locked in so whatever the rate is when you open the account, it will remain at that rate for the entirety of the account’s lifespan.

While all federally insured banks offer these three common accounts, each individual bank will vary on their accounts, rates, and terms. If you are thinking about opening a new savings account, money market account, or certificate of deposit, be sure to ask the right questions to ensure you are making the best financial decision for you.

Savings Account	Money Market Account	Certificate of Deposit
<ul style="list-style-type: none"> <li><span style="color: green;">+</span> Low Minimum Balance</li> <li><span style="color: green;">+</span> Easily accessible - Electronic Transfers, ATM access, withdrawal capabilities</li> <li><span style="color: green;">+</span> Low or no fees</li> <li><span style="color: red;">-</span> Limited number of withdrawals per month</li> <li><span style="color: red;">-</span> Very low interest rates</li> </ul>	<ul style="list-style-type: none"> <li><span style="color: green;">+</span> Easily accessible - Electronic transfers, write checks, ATM access</li> <li><span style="color: green;">+</span> Higher and/or tiered interest rates</li> <li><span style="color: red;">-</span> Higher minimum deposit</li> <li><span style="color: red;">-</span> Limited number of withdrawals per month</li> </ul>	<ul style="list-style-type: none"> <li><span style="color: green;">+</span> Higher interest rates</li> <li><span style="color: green;">+</span> Rate is locked in and will not change</li> <li><span style="color: green;">+</span> Zero fees if account is held to maturity</li> <li><span style="color: red;">-</span> No withdrawals until maturity without penalty.</li> <li><span style="color: red;">-</span> Not accessibly - no electronic transfers, ATM access, or checks.</li> </ul>

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