Savings Tools

Advanced Level
**Types of Savings Tools**

*Savings tools* - secure and liquid accounts offered by depository institutions assisting in the management of a savings fund

- Checking Account
- Savings Account
- Money Market Deposit Account
- Certificate of Deposit
Insured depository institutions offer accounts which are:

- **Secure**: Accounts must stay within coverage limits
- **Liquid**: Generally quick and easy to withdraw money

**How will a consumer know if their depository institution offers secure accounts?**
Savings Tools Characteristics

Each savings tool has different characteristics

Goal: Determine the savings tool most appropriate for reaching a financial goal
# Checking Account

<table>
<thead>
<tr>
<th>Definition</th>
<th>Interest</th>
<th>Liquidity (accessibility)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account that provides an easy method for withdrawing and depositing money</td>
<td>Most do not</td>
<td>Most liquid</td>
</tr>
<tr>
<td></td>
<td>If offered, rates are low</td>
<td></td>
</tr>
</tbody>
</table>

What are common ways to access funds in a checking account?
### Checking Account Features

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce the need to carry large amounts of cash</td>
<td>Different types of accounts are available (some have fees)</td>
</tr>
<tr>
<td>Also known as a share draft account at a credit union</td>
<td>Not recommended as the only account used to save money</td>
</tr>
</tbody>
</table>
Savings Account

Definition
- Account designed to hold money not spent on current consumption

Interest
- Earns interest
- Rates are often low

Liquidity (accessibility)
- More liquid than other savings tools (except checking accounts)

What are common ways to access funds in a savings account?
Savings Account Features

Effective for storing emergency funds

May require a minimum balance or have a limited number of withdrawals each month

Also known as a share account at a credit union
### Money Market Account

<table>
<thead>
<tr>
<th>Definition</th>
<th>Interest</th>
<th>Liquidity (accessibility)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Account that usually has minimum balance requirements and tiered interest rates</td>
<td>• Often <strong>tiered interest rates</strong> – the amount of interest earned depends on the account balance</td>
<td>• Less liquid than checking and savings accounts because of minimum balance requirements and transaction limits</td>
</tr>
</tbody>
</table>

Which would typically earn a higher interest rate? An account with a $10,000 balance or a $2,500 balance?
Money Market Account Features

- Usually have to deposit a minimum amount to open the account (typically $1,000)

- Similar to a savings account but earns higher interest and has higher minimum balance/deposit requirements
## Certificate of Deposit (CD)

<table>
<thead>
<tr>
<th>Definition</th>
<th>Interest</th>
<th>Liquidity (accessibility)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Account that is used for a fixed period of time and allows restricted access to the funds</td>
<td>• Varies (depending on time and amount of money deposited)</td>
<td>• Least liquid savings tool</td>
</tr>
</tbody>
</table>

Why would a depository institution typically offer higher interest rates for CD’s with a longer time period or more money invested?
Certificate of Deposit Features

Deposits must be held for a certain length of time (usually 7 days to 10 years)

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
Matching Savings Tools to Goals

Consider these factors when determining the most appropriate savings tool for your financial goal:

- **Amount of funds available**
- **Liquidity**
- **Interest**
- **Purpose of money saved**
- **When money is needed**
- **Savings tool requirements**
- **Fees**
Analyze the features of a savings tool among depository institutions

*Terms and conditions such as interest rates, fees, and minimum balance requirements may vary.*
Liquidity

Higher interest rates are a trade-off for lower liquidity

Most Liquid/ Lowest Interest

Checking Account

Savings Account

Money Market Deposit Account

Certificate of Deposit

Least Liquid/ Highest Interest
Summary

Understand the features of savings tools to select the most appropriate tool for each financial goal