



Managing Money

Savings Accounts

Managing Money:

Savings Accounts

A savings account is an account that always earns interest. You cannot write checks on a savings account.

The amount of interest your savings will earn depends on the Annual Percentage Yield (APY).

APY is the amount of interest you will earn on a yearly basis expressed as a percentage. The APY includes the effect of compounding. When comparing different accounts, you should compare the APY's of the savings products, not the interest rates. The higher the APY, the more interest you will receive. The interest you earn is considered income and is taxable.

You can open a savings account with a few dollars, but you might pay a monthly fee if the balance falls below a certain amount.

The financial institution will help you keep track of your account either by sending you a statement or providing you with a booklet called a passbook.

It is a good idea to compare the rules of the different accounts. For example, banks might require you to have a certain balance to open an account, earn interest or avoid fees. This might be called a minimum balance.

Statement Savings Account

A statement savings account is an account that earns interest. If you have a statement savings account, you will usually receive a quarterly statement that lists all of your transactions (withdrawals, deposits, fees and interest earned).

Passbook Savings Accounts

Passbook savings are similar to statement savings accounts. The difference is the record keeping. Instead of receiving a quarterly statement, all transactions are recorded in a passbook. You have to take your passbook to the bank when making transactions. The teller will update your account information when you go to the bank.

Club Account

A club account is a type of savings account you join to save money for a special reason, such as holidays or family vacations. Club accounts usually require you to make regular deposits.

Money Market Accounts

A money market account is one that usually pays a higher rate of interest than a regular savings account. Money market accounts usually require a higher minimum balance to earn interest, but they also pay higher rates for higher balances.

Certificates of Deposit (CDs)

CDs are accounts where you leave your money for a set period of time, such as six months, one, two or five years, called a term. You usually earn a higher rate of interest than in a regular savings account. The longer you promise to keep your money in a CD, the higher the interest rate. Be sure to think about your cash needs before opening a CD because you will pay a penalty if you withdraw your money early.

Difference between types of accounts

- Statement savings and passbook savings accounts are similar. They both earn interest. The difference is in the record-keeping.
- Club accounts are for saving for a specific purpose, such as a vacation or a holiday.
- CDs and Money Market accounts generally earn higher interest rates and require higher minimum balances. CDs are held for a fixed term. This means you cannot make deposits or withdrawals during the term. Money Market accounts do not have a fixed term. You can make deposits and withdrawals.

When looking for an account, use the Choosing a Savings Account Work Sheet to help you choose an account that is right for you.

References

Federal Deposit Insurance Corporation. (2002). Bank on it. Money Smart. Washington, DC: Author.

Federal Deposit Insurance Corporation. (2002). Check it Out. Money Smart. Washington, DC: Author.

Federal Deposit Insurance Corporation. (2002). Pay Yourself First. Money Smart. Washington, DC: Author.

Shopping for Savings Account Work Sheet

	Savings product 1	Savings product 2	Savings product 3
	_____	_____	_____
	(name)	(name)	(name)
Amount needed to open account or buy product			
Annual percentage yield (APY)			
Time needed to be able to access money			
Fees involved if any			
Fees for early withdrawals, if any			
Amount of risk involved			
Other fees			
Other things to ask: <ul style="list-style-type: none"> • Is my account insured (if the financial institution is in a bank or credit union)? 			

*This resource is one in a series on **Managing Money** which include:*

Making your Money Work:

Determining What Is Important to You
Where Are You Now? (Net Worth Statement)
Stop Spending Leaks
Developing a Spending Plan

Using Credit:

What Is Credit and How Much Credit Can I Afford?
Types of Credit: What Are Your Choices?
Credit Cards
Credit Reports

Building Savings:

Ways to Save
How Your Money Can Grow
Where to Save
Investment Options

Selecting Financial Institutions:

Selecting a Financial Institution
Checking Accounts
Savings Accounts

Creating a Record System:

Keeping Records in Order
Where to Keep Records

Determining Readiness:

Financial Readiness
Benefits and Challenges

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