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# Types of savings accounts

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## What is in this guide?

- ↓ Types of savings accounts

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- ↓ Frequently asked questions (FAQs)



Saving is an important part of your financial plan. But there are better ways to save than throwing cash into a piggy bank.

Whether you're saving for an emergency fund, a vacation or a down payment on a home, determining which type of savings account to open comes down to your goals, time horizon and personal financial situation.

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Before you choose where to stash your cash, it's crucial to understand the difference between the various types of savings accounts.

# Types of savings accounts

Here are some common types of savings accounts:

## **Regular savings accounts**

A regular, or traditional, savings account is a good option for savers who prioritize ease of use and quick access to their money over getting the highest interest rate possible.

Regular savings accounts usually offer lower annual percentage yields (APYs) than high-yield savings accounts or certificates of deposit (CDs). You'll also generally get higher APYs with online banks than you will with traditional banks.

Getting 0.01% APY on a regular savings account from a traditional bank is common. Chase, PNC, BMO, Huntington, TD Bank, U.S. Bank and Bank of America are just a handful that offer traditional savings accounts with an APY of 0.01%.

Before opening a savings account, make sure you know

exactly what fees you'll be paying, including monthly maintenance fees. Ensure you open an account with a bank that's insured by the Federal Deposit Insurance Corp. (FDIC) or a credit union that's insured by the National Credit Union Administration (NCUA) so your deposits will be protected up to \$250,000 per account, per institution.

If you can't find information on the financial institution's website about federal insurance, you can use the [FDIC's BankFind tool](#) or the [NCUA's Credit Union Locator](#) to see whether the institution you're considering is insured.

## **High-yield savings accounts**

If you're looking for a place for short-term savings that often offers a higher interest rate than a regular savings account, consider a high-yield savings account.

These accounts are typically offered by online banks that can

pass their cost savings along to customers in the form of higher yields. The fees are generally less than you might see at a traditional savings account, but online banks can lack some of the conveniences of traditional banks, like the ability to make cash deposits, withdraw money from ATMs or walk into a physical branch.

As a result of the Federal Reserve's decision to begin hiking interest rates in 2022, APYs on many high-yield savings accounts are currently between 4.00% and 5.00%. However, some high-yield savings accounts may require a minimum balance to earn the advertised interest rate, said Laura Mattia, a financial planner at Atlas Fiduciary Financial. They also usually have variable rates.

“Interest rates on high-yield savings accounts can change over time, affecting earnings,” Mattia said. “Many savers ignore the fluctuation in rate over time and often find they are not receiving the yield they thought.”

# Money market accounts

Money market accounts tend to offer more interest than traditional savings accounts. As of December 2023, the national average savings rate is 0.46%, while the average money market account rate is 0.63%.

They also usually allow savers to make transactions via checks, debit cards or electronic transfers.

However, money market accounts typically limit the amount of transactions that you're allowed to make. That means you should use them to save money you ideally won't have to touch often, like emergency savings, said Catherine Valega, a financial planner at Green Bee Advisory.

Like traditional savings accounts, money market accounts are FDIC- and NCUA-insured if you bank with an insured institution.

It's important to note that a

money market *account* is a deposit account and shouldn't be confused with a money market *fund*, which is a type of mutual fund.

## **Certificates of deposit (CDs)**

For savers on the hunt for an interest rate that's often higher than they will receive in a traditional savings account, another option is a certificate of deposit (the national average interest rate on a one-year CD is 1.85%, via the FDIC). CD accounts offer a fixed rate on your money over a certain time frame, like six months or five years.

The downside to CDs is that they're less liquid than traditional or high-yield savings accounts, meaning it's more difficult to access your cash right away. If you withdraw your money before the term of the CD is up, you'll usually face a penalty.

CDs are typically fixed-rate, meaning that the issuing firm will



pay you the same interest rate across the entire term of the CD. However, you can also buy variable-rate CDs, which still lock up your money for a certain time period but have a fluctuating interest rate. If the Fed hikes interest rates further, you'll benefit from higher interest rates on your CD — but interest-rate cuts mean lower rates.

Like money in a traditional savings account, CDs carry FDIC or NCUA insurance as long as the financial institution is federally insured.

## **Tax-advantaged savings accounts**

While stashing money is a good first step toward a more secure financial future, make sure you're not missing out on the benefits of tax-advantaged accounts. Tax-deferred accounts allow for tax deductions on your contributions now but require you to pay taxes when you withdraw contributions and earnings in the future. Tax-exempt accounts are funded with after-tax dollars but allow

you to take qualified withdrawals later in life without paying taxes on them.

Tax-advantaged savings accounts typically help you save for a specific goal. For example, you can contribute to a health savings account (HSA) tax-free and withdraw money for qualified medical expenses without incurring taxes.

Other common tax-advantaged savings vehicles include retirement savings accounts like employer-sponsored 401(k) plans and individual retirement accounts (IRAs), or 529 plans for education expenses — but you're investing money in these accounts, not just saving it.

## **Joint savings accounts**

Joint savings accounts are shared between at least two people, such as a married couple or business partners. They function similarly to traditional savings accounts but allow all owners to do banking activities like withdrawing money.

Common reasons to open a joint bank are combining finances and banking for someone who isn't able to do so on their own. Keep in mind that while all parties involved have access to the funds, they're also all responsible for the fees.

## **Children's savings accounts**

With a children's savings account, kids can start to establish strong financial habits early with the support of an adult.

Because minors can't open savings accounts on their own, you'll have to opt for either a custodial account that is owned by the child but managed by the adult until the child turns 18, or a joint account. With a joint account, both the adult and child have access, but the parents can supervise the activity in the account. When the child turns 18, either type of account can be fully transferred over to them.

Children's accounts often come

with perks, like lower fees, but you'll want to do your research on features like fee structures and balance requirements.

## Frequently asked questions (FAQs)

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**How can you make the most out of a high-yield savings account?** ^

High-yield savings accounts usually earn a higher interest rate than traditional savings accounts. The bigger your balance, the more you'll earn in interest. To make the most of your savings account, try to contribute regularly.

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**What is the difference between a money market account and a CD account?** v

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## **How does a cash management account work?**

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## **What are the benefits of a specialty savings account?**

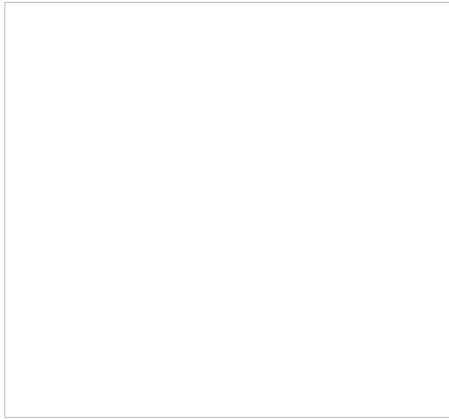
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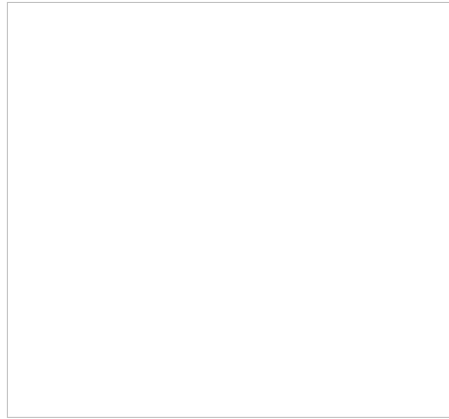
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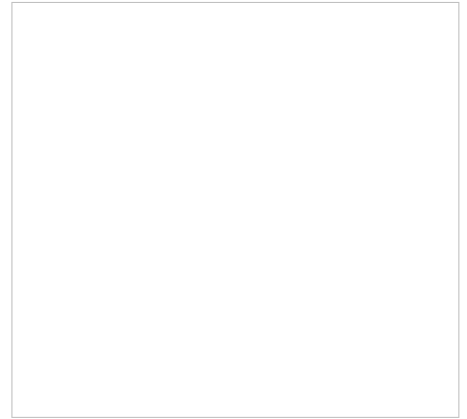
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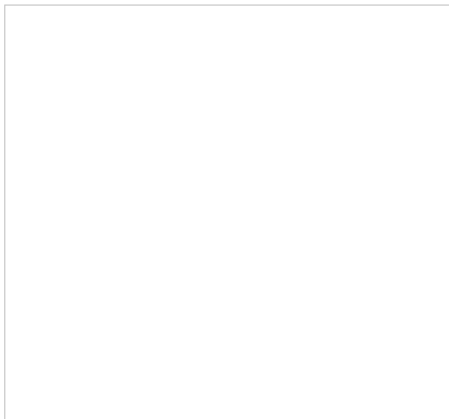
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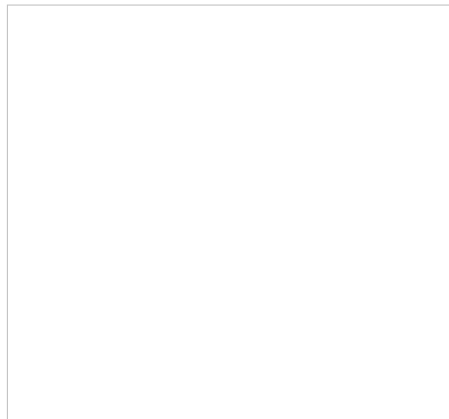
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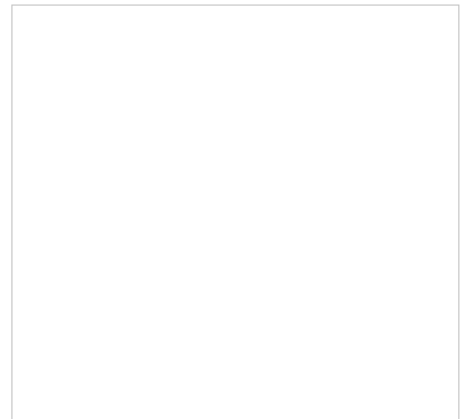
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