



Savings Tools

Advanced Level



TAKE CHARGE TODAY

Financial Education for a Better Future

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

Checking Account

easy to withdraw & deposit money

Savings Account

holds money not spent on current consumption

Money Market Deposit Account

- minimum balance
- tiered interest rates
- transaction limits

Certificate of Deposit

- fixed time period
- restricted access to the funds

Ideal for Storing Emergency Savings

Insured depository institutions offer accounts which are:

Secure

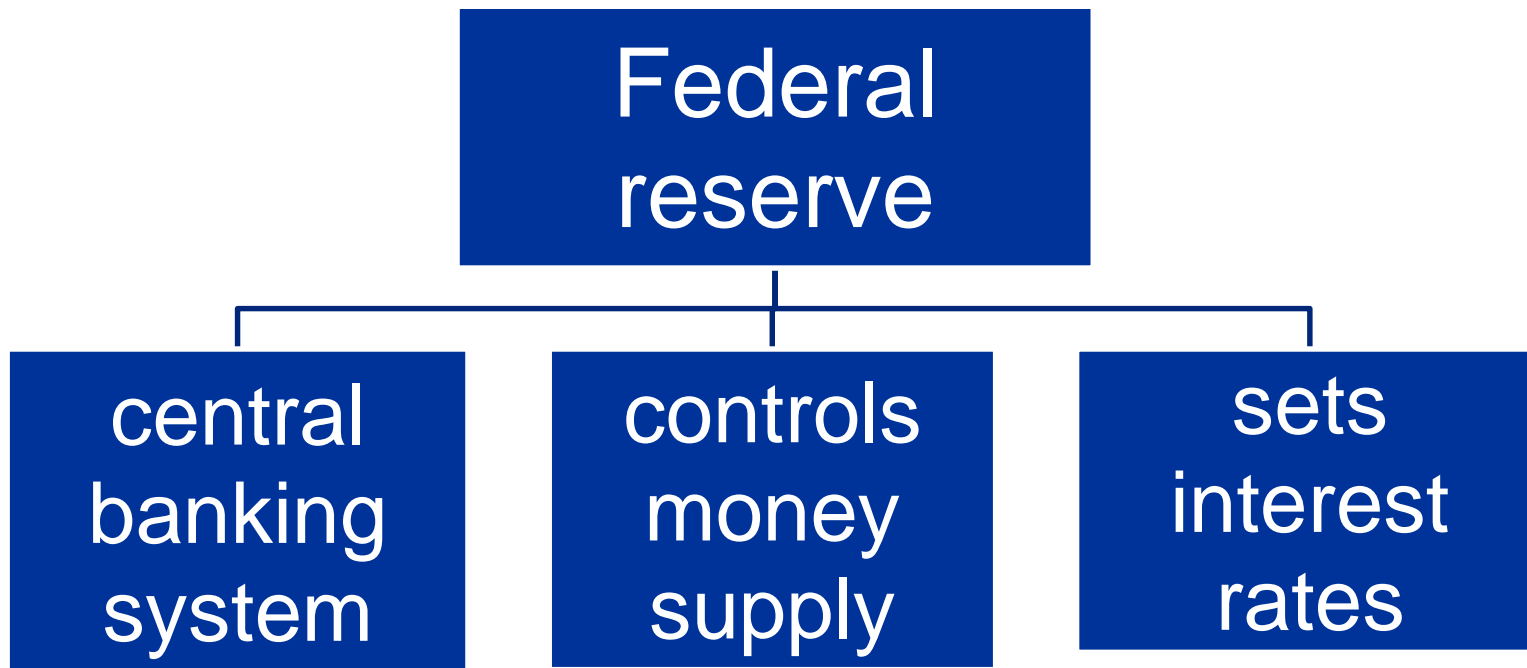
If accounts stay within coverage limits (\$250K), they are insured by the government

Liquid

Generally quick and easy to withdraw money

How will a consumer know if their depository institution offers secure accounts?





<https://www.youtube.com/watch?v=I2m3t2Yr8Vg>

FDIC

Insures
deposits

Up to
\$250,000

in U.S.
banks

<https://www.youtube.com/watch?v=dBOFiDpmESI>

NCUA

insures
deposits

up to
\$250,000

in U.S.
credit
unions

https://www.youtube.com/watch?v=iKMWQm_YvfQ

liquidity

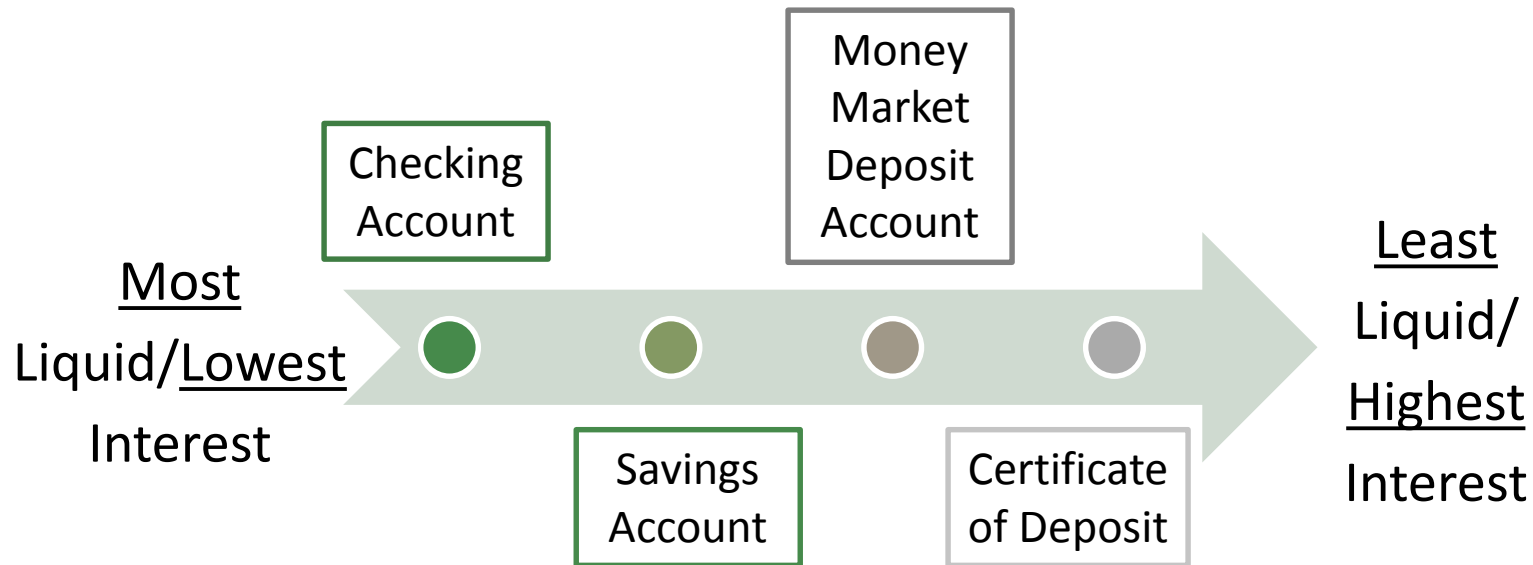
Cost in time
and money

to convert an
account or
investment

into cash
\$\$\$\$\$\$\$

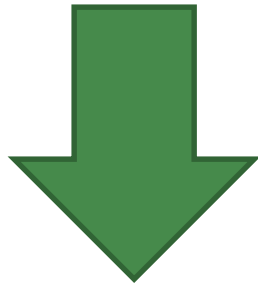
Liquidity

Higher interest rates are a trade-off for lower liquidity

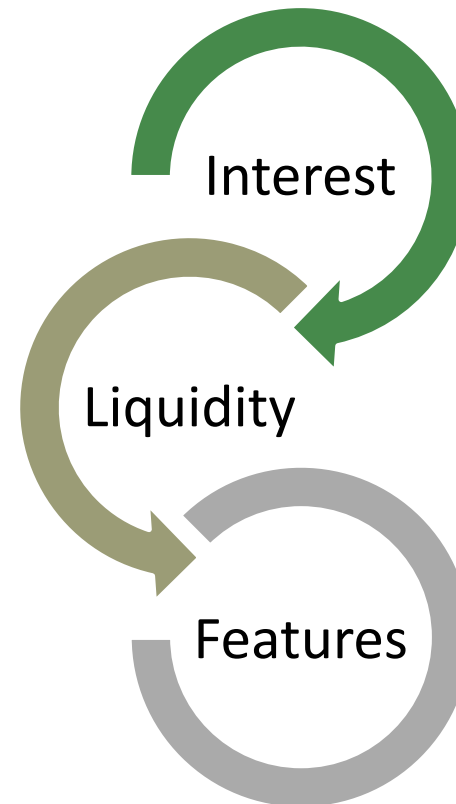


Savings Tools Characteristics

Each savings tool has different characteristics

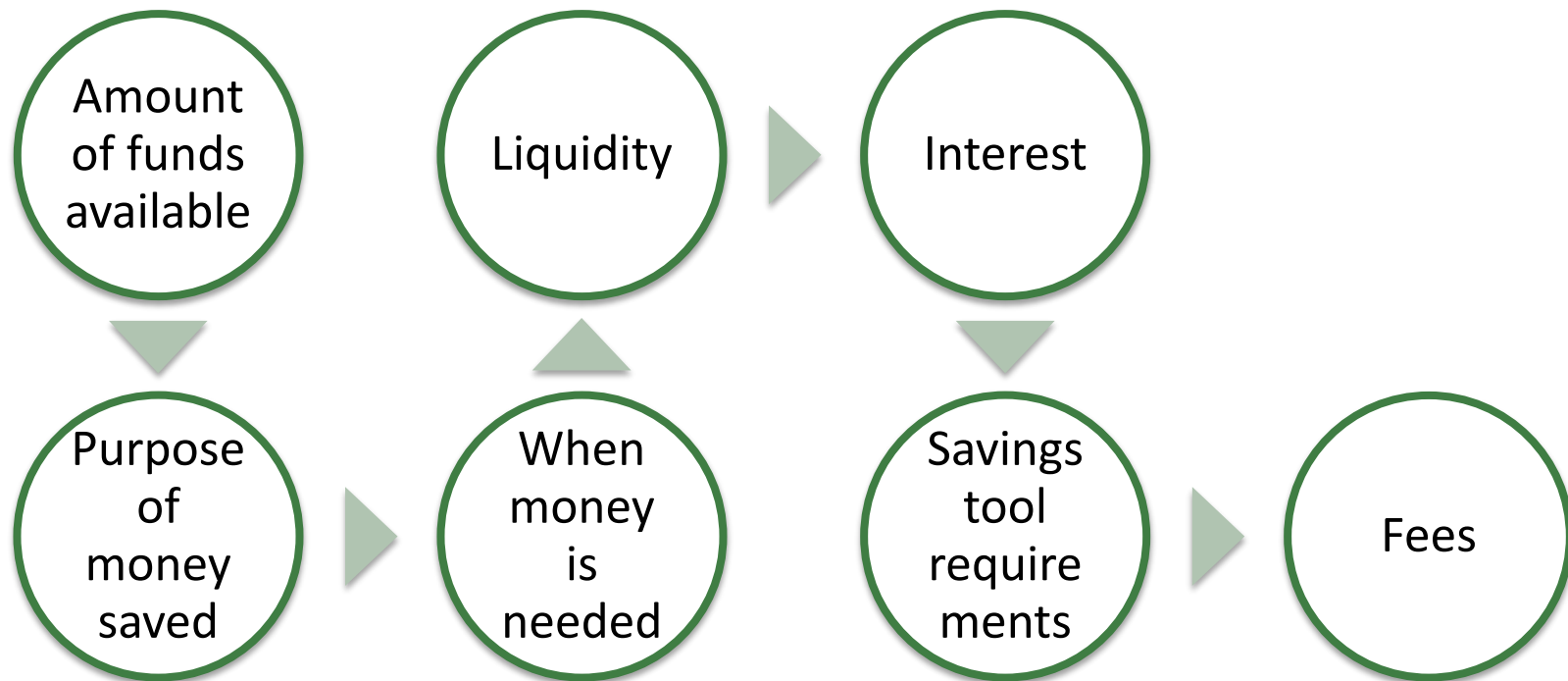


Goal: Determine the savings tool most appropriate for reaching a financial goal



Matching Savings Tools to Goals

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



Checking Account

Definition

- easy to withdraw & depositing money

Interest

- Most do not
- If offered, rates are lowest

Liquidity (accessibility)

- Most liquid



What are common ways to access funds in a checking account?

Checking Accounts

Reduce the need to
carry large
amounts of cash

Different types of
accounts are
available
(some have fees)

Not recommended
as the only account
used to save
money

Savings Accounts

Definition

- holds 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 Accounts

Effective for storing
emergency funds

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

Money Market Accounts

Definition

- minimum balance
- tiered interest rates
- transaction limits

Interest

- Often **tiered interest rates** – depends on the account balance
- \wedge balance =
- \wedge interest rate

Liquidity (accessibility)

- Less liquid than checking and savings accounts because of minimum balance requirements and transaction limits



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

risk /
reward

higher
risk

=
(usually)

higher
reward

Money Market Accounts

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)

Definition

- fixed time period
- restricted access to the funds

Interest

- Varies (depending on time and amount of money deposited)

Liquidity (accessibility)

- Least liquid



Certificate of Deposit

Deposits must be held for a certain length of time (up to 10 years)

If funds are held for the designated time period, then there is limited risk and no fees

You Decide: Which Tool is Best?

Avery's goal is to create an emergency savings fund



Savings account



Funds are easily accessible

Javier's goal is to purchase a new car within the year



Money market account



Higher interest rates available

Analyze the features of a savings tool among depository institutions

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



Summary

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

