

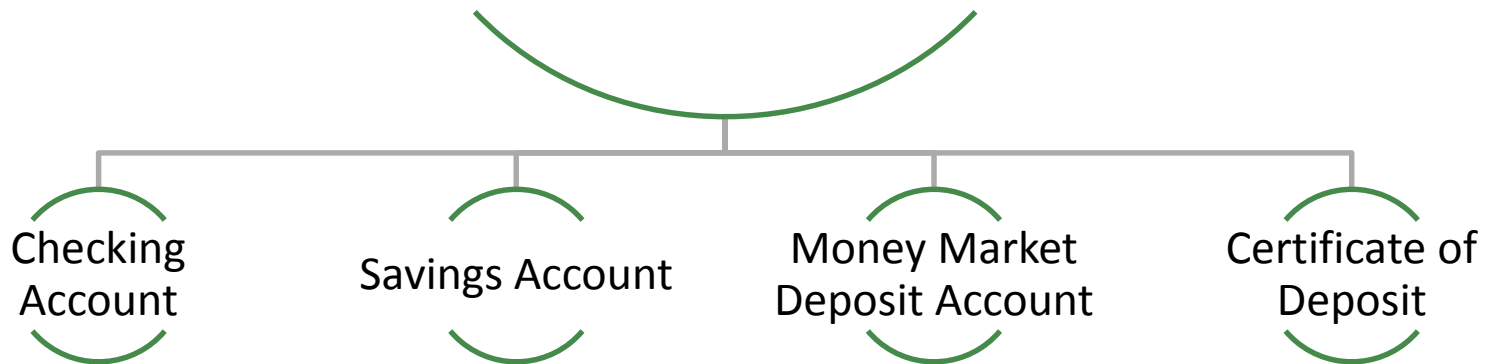


Savings Tools

Advanced Level

Types of Savings Tools

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



Ideal for Storing Emergency Savings

Insured depository institutions offer accounts which are:

Secure

Accounts must stay within coverage limits

Liquid

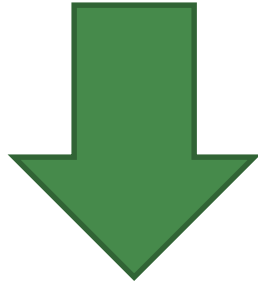
Generally quick and easy to withdraw money

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

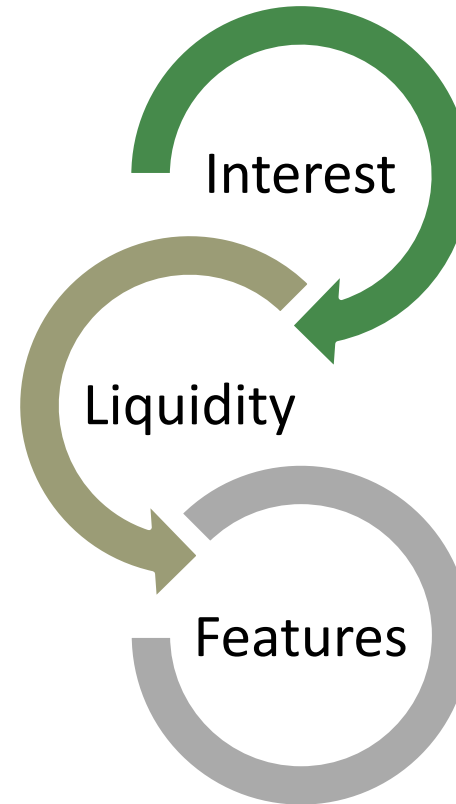


Savings Tools Characteristics

Each savings tool has different characteristics



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



Checking Account

Definition

- Account that provides an easy method for withdrawing and depositing money

Interest

- Most do not
- If offered, rates are low

Liquidity (accessibility)

- Most liquid



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

Checking Account Features

Reduce the need to carry large amounts of cash

Different types of accounts are available (some have fees)

Also known as a share draft account at a credit union

Not recommended as the only account used to save money

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

Definition

- Account that usually has minimum balance requirements and tiered interest rates

Interest

- Often **tiered interest rates** – the amount of interest earned depends on the account balance

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?

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)

Definition

- Account that is used for a fixed period of time and allows restricted access to the funds

Interest

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

Liquidity (accessibility)

- Least liquid savings tool



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

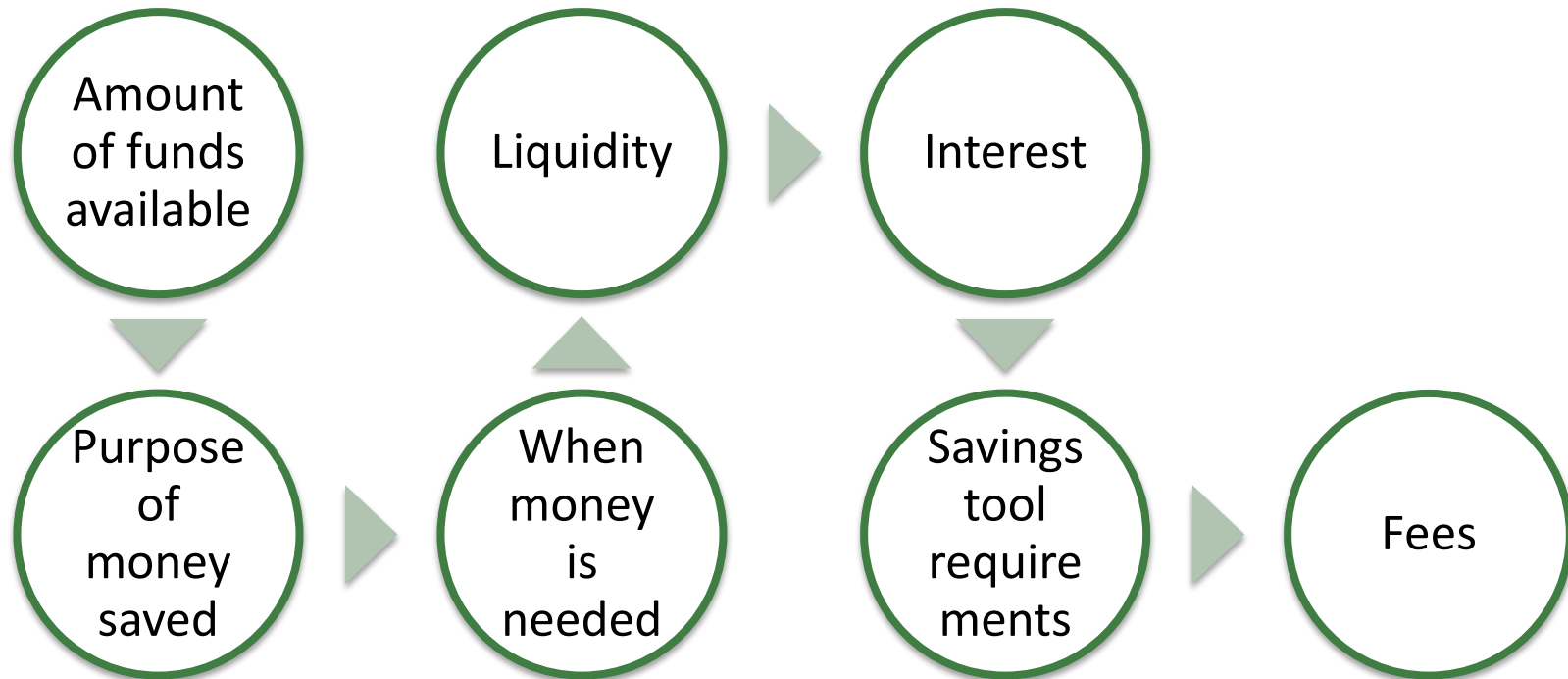
Deposits must be held for a certain length of time (usually 7 days to 10 years)

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



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

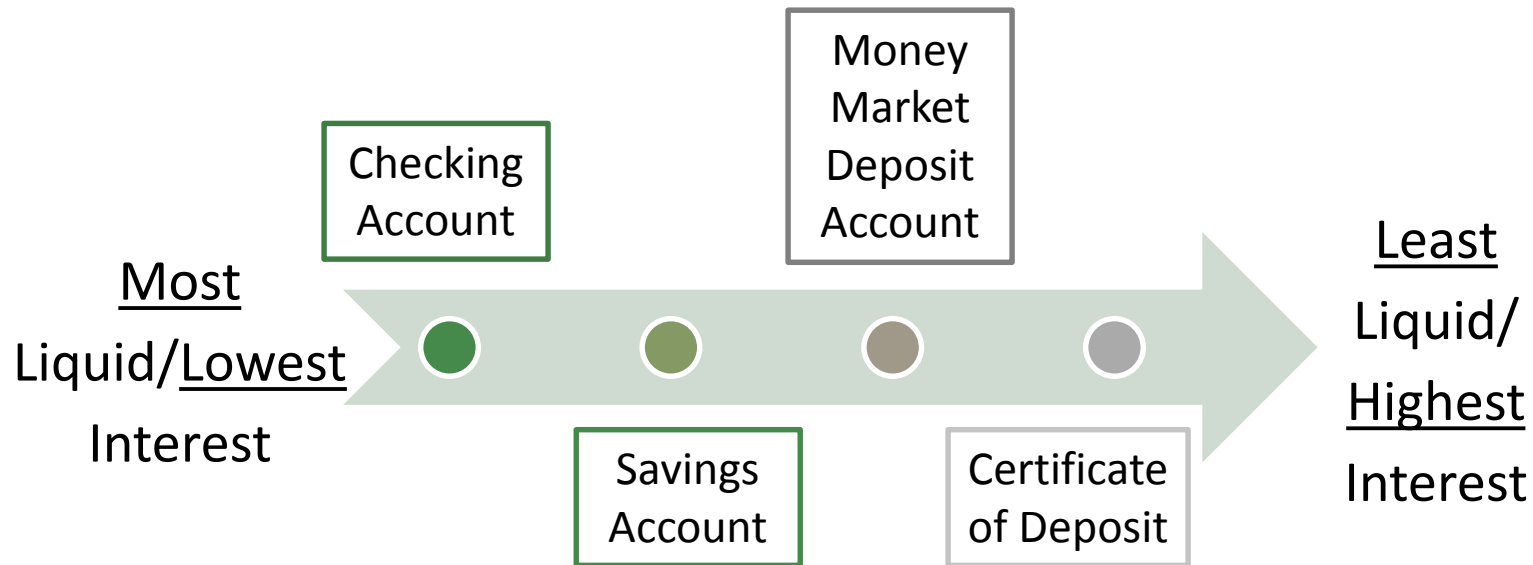
Analyze the features of a savings tool among depository institutions

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



Liquidity

Higher interest rates are a trade-off for lower liquidity



Summary

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

