



Lelia Wissert
Regional Extension Agent

Options for Short-Term Savings:

Many families like to keep up with the “Jones ’”. You know be the average American family. Well the idea of being average in the financial sector may not be a good thing. In today’s world you may not want to be “average” – average often isn’t a good thing. The average tend to: spend more money than you make, saving little [or nothing] for the future, a pile of debt, and [according to Bankrate.com] you’re earning about ½% interest on your savings account. Many people are uninformed of other alternatives for saving for short-term goals [house down payment, car, emergency fund, etc.]. Briefly outlined here are a few of these options designed to preserve your principal balance (with no or very minimal risk). Be sure to investigate these types of choices just like any other financial decision.

SAVINGS ACCOUNTS. In the “good ‘ol days’ savings or passbook accounts were the most popular spot to save for short-term needs. Although this has changed to a great deal, the internet has made a savings account

more financially productive than many realize. General pros/cons of a savings account:

(+) Savings is FDIC insured

(+) Typically low account minimums

(-) Typically low return

Examples of online savings accounts paying above average interest (4%-4.5%) in an FDIC insured account with no fees and no minimums are:

Emigrant Direct (<http://www.emigrantdirect.com/>) HSBC Direct

(<http://www.hsbcdirect.com/>) and ING Direct

(<http://home.ingdirect.com/>).

MONEY MARKET DEPOSIT ACCOUNTS. This type of account

requires a minimum balance and will typically permit a small number of account transactions (checks written on the account, possibly even ATM transactions).

(+) Liquidity - very easy to get to the money.

(+) Since they're offered by banks, they're FDIC insured.

(-) Overall return may be sacrificed in part by liquidity & easy access to the money.

(-) If you fall below a minimum required balance or exceed the allowed number of transactions, you're likely going to be hit with a penalty/fee.

MONEY MARKET FUNDS. Offered by brokerages and mutual fund families, these funds invest in liquid, "safe" securities such as certificates of deposit (CDs), government securities, etc.

(+) Liquidity - often have check-writing/ATM capabilities.

(+) The return on money market funds is typically higher than on the money market deposit accounts mentioned prior.

(-) Not FDIC insured.

(-) Although your principal investment is "relatively safe" there is no guarantee.

CERTIFICATES OF DEPOSIT (CDs). CDs are debt instruments with a specific maturity (commonly from 3 to 60 months). Most are offered by banks & credit unions, but are also available through brokerages & other financial service providers.

(+) CDs are very safe since banks are FDIC insured (your CDs are as well).

(+) Depending on the length to maturity, CDs may pay more than money markets (the longer the time to maturity, the higher the rate of return).

(-) The money is off limits until the CD matures - you can redeem the CD early if necessary, but you'll pay a penalty.

<http://www.bankrate.com> is a great website to gather information about national CD rates as well as what companies nationally are paying the most competitive rates.

US GOVERNMENT BILLS OR NOTES. "Treasuries" are backed by the full faith and credit of the US Government. Treasury bills mature in less than a year, treasury notes mature between 2 and 10 years.

(+) Treasuries are considered to be one of the safest investments in the world.

(+) Can be bought directly, commission-free (<http://treasurydirect.gov/>).

(+) Exempt from state and local taxes.

(-) Shopping around could result in a better return from money markets, CDs, or corporate bonds.

(-) If you need your investment before the security matures, you may not get back all of your original investment.

For more information contact your financial advisor or the Alabama Cooperative Extension office in your county.