MONEY 101
12.05. CASH instruments (Checking, Savings, Money Market, and Certificate of Deposit accounts) and FDIC insurance.

- **What are the differences between a Checking, Savings, Money Market, or Certificate of Deposit account?**
- **What fees are associated with these accounts?**
- **Where should I keep my emergency funds?**
- **What is FDIC insurance?**

## 1. CHECKING ACCOUNTS

A checking account is a type of bank account that allows you to deposit and withdraw money easily for daily transactions. This may include depositing a check you receive, taking out cash with your debit card, or setting up direct deposit for your paychecks. Most individuals should have a checking account to pay their bills. Maintaining a prudent checking account balance is roughly one month's outflow.

FEES: Most banks charge on a checking account

- A monthly checking account maintenance fee, but the fee is often waived if the average balance stays above a threshold amount. Always ask what amount must be maintained to avoid fees
- There is a fee to use an ATM if you go outside of their network. To avoid fees, make sure you understand how to get cash "within" the network both when you are in your hometown and when traveling.
- There is a fee for printed checks. However, most institutions give new checking account users a few free checks upon opening an account. After those checks are used up, checks must be ordered. Ask the institution how much they charge for checks ordered through them. Often, ordering checks through a printing company found on the internet will cost less.

  *HINT—When ordering checks, do NOT have an address printed on them to protect privacy and avoid having the checks become obsolete if the account holder moves. However, as most check-printing companies automatically add the address, it must be requested **in advance** NOT to print the address.*

## 2. SAVINGS ACCOUNT

A savings account is an interest-bearing deposit held at a bank or other financial institution. Though these accounts typically pay only a modest interest rate, their safety and reliability make them a good option for parking cash that you want available for short-term needs.).

- Earns Interest
- Rarely charged a maintenance fee
- It does NOT allow check writing ability.
- Generally, allows unlimited ATM and in-person withdrawals.

## 3. MONEY MARKET ACCOUNT

A money market account is a type of account offered by banks and credit unions. It allows you to write checks but limits the number of transactions you can make per month. Money market accounts generally pay a higher interest rate than savings accounts and may have a monthly maintenance fee.

- Earn interest – and often a little more than a savings account.
- It may have a monthly maintenance fee.
- Allows unlimited ATM and in-person withdrawals.
- It allows check writing, but you can make up to six of the following transactions in a statement cycle (typically one month).
  - Payments by check
  - Debit card purchases
  - Drafts
  - Electronic transfers

## 4. CERTIFICATE OF DEPOSITS

A certificate of deposit, or CD, is a savings account offered by banks and credit unions whereby the depositor agrees to keep their money in the bank for a specified length of time. The interest paid is linked to how long you will keep the money. In general, the longer the term, the higher the rate. If you withdraw the money before the end of the term (called "breaking the certificate of deposit"), you often lose all the accumulated interest.

- Earns Interest
- Tie up the money for a specific period. i.e., 30 days, 90 days, six months, one year, and two years, etc.) and if broken, all of the interest that would have been earned is forfeited
- Does not allow check writing ability
- Does not allow ATM withdrawals.

**Emergency Funds should be maintained in a Savings, Money Market or Certificate of Deposit. They can be split among two or three types of accounts.**

**FDIC INSURANCE—**Most, but not all, banks participate in the Federal Deposit Insurance Corporation (FDIC) insurance program. If the bank participates, it provides an individual account holder with insurance in the event the bank goes bankrupt and is unable to pay its depositors.

FDIC insurance has a limit, currently $250,000 per account holder per bank. This means if you have three accounts at one institution, all under your personal name (thus not a business account or a joint account), the combined value is only insured up to $250,000.

Before opening a new bank account, always ask if it is FDIC insured. More information on FDIC insurance can be found at: https://www.fdic.gov/and it is specifically interesting to read the frequently asked questions https://edie.fdic.gov/fdic_info.html

**SPECIAL NOTE**

MONEY MARKET FUND (MMF), or MONEY MARKET MUTUAL FUND (MMMF)

These are very different from the Money Market accounts described above. The key distinguishing word is "FUND".

A Money Market **FUND** or Money Market Mutual **FUND** are an investment in debt securities with short terms and minimal credit risk. They are sold through investment firms such as Vanguard, Schwab, Fidelity, etc.

While these funds are among the lowest-volatility types of investments, they do rise and fall in value as interest rates change. Therefore, if you purchase an MMF or MMMF, the value of your account may go down.

**Money Market FUNDS are NOT FDIC insured.**

Money market funds are NOT a good product for emergency funds because they have the potential to decrease in value.

Some investment firms have two divisions: an investment division and a banking division. If you use your investment firm to handle your routine banking and emergency funds, clarify which funds are FDIC insured and which are not.