**Savings**

**What Are Savings?**

Savings refers to the money that a person has left over after they subtract out their [consumer spending](https://www.investopedia.com/terms/c/consumer-spending.asp) from their [disposable income](https://www.investopedia.com/terms/d/disposableincome.asp) over a given time period. Savings, therefore, represents a net surplus of funds for an individual or household after all expenses and obligations have been paid.

Savings are kept in the form of cash or cash equivalents (e.g. as bank deposits), which are exposed to no risk of loss but also come with correspondingly minimal returns. Savings can be grown through [investing](https://www.investopedia.com/terms/i/investing.asp), which requires that the money be put at risk, however.

KEY TAKEAWAYS

* Savings is the amount of money left over after spending and other obligations are deducted from earnings.
* Savings represent money that is otherwise idle and not being put at risk with investments or spent on consumption.
* Savings accounts are very safe but tend to offer very low rates of return as a result.
* Saving can be contrasted with investing, in that the latter involves seeking to grow wealth by putting money at risk.
* Negative savings is indicative of household debt or negative net worth.

**Understanding Savings**

Savings comprise the amount of money left over after spending. People may save for various life goals or aspirations such as retirement, a child's college education, the down payment for a home or car, a vacation, or several other examples.

Savings may commonly be earmarked for emergencies. For example, Sasha’s monthly paycheck is $5,000. Expenses include a $1,300 rent payment, a $450 car payment, a $500 student loan payment, a $300 [credit card](https://www.investopedia.com/terms/c/creditcard.asp) payment, $250 for groceries, $75 for utilities, $75 for cellphone service, and $100 for gas. Since Sasha's monthly income is $5,000 and monthly expenses are $3,050, there is $1,950 leftover as savings. If Sasha maintains this excess as savings and later faces an emergency, there will be some money to live on while resolving the issue.

If one is unable to maintain savings, they may be said to be [living paycheck to paycheck](https://www.investopedia.com/articles/pf/10/budgeting-when-broke.asp). If such a person experiences an emergency, there is often not enough money saved up to live on and they may risk falling into debt or bankruptcy.

The U.S. Bureau of Economic Analysis defines disposable income as all sources of income minus the tax you pay on that income.1

**Types of Savings Accounts**

There are different types of savings accounts offered by banks that come with different features or limitations. Note that all bank savings vehicles come with [Federal Deposit Insurance Corporation (FDIC)](https://www.investopedia.com/terms/f/fdic.asp) of up to $250,000 per depositor per institution.2

Savings Accounts

A [savings account](https://www.investopedia.com/terms/s/savingsaccount.asp) pays interest on cash not needed for daily expenses but available for an emergency. Deposits and withdrawals are made online, by phone, mail, or at a physical bank branch or ATM. Interest rates on savings accounts tend to be low but are often higher than on checking accounts. The best savings accounts can usually be found online because they'll pay a higher interest rate. Online-only accounts may be examples of [high-yield savings accounts](https://www.investopedia.com/articles/pf/09/high-yield-savings-account.asp), which can offer as much as 20-25x higher interest on deposits than the national average.3

Checking Accounts

A [checking account](https://www.investopedia.com/terms/c/checkingaccount.asp) offers the ability to write checks or use debit cards that draw from your account. A checking account pays lower interest rates than other bank accounts, and many of them credit no interest at all to checking customers. In return, however, account holders get highly liquid and accessible funds often with low or no monthly fees.

Money Market Accounts

A [money market account (MMA)](https://www.investopedia.com/terms/m/moneymarketaccount.asp) is an interest-bearing account at a bank or credit union (not to be confused with a [money market fund](https://www.investopedia.com/terms/m/money-marketfund.asp)). MMAs often pay a higher interest rate than regular passbook savings accounts and also include check writing and debit card privileges. These also can come with restrictions that make them less flexible than a regular checking account.4

Certificates of Deposit (CDs)

A [certificate of deposit (CD)](https://www.investopedia.com/terms/c/certificateofdeposit.asp) limits access to cash for a certain period in exchange for a higher interest rate. Deposit terms range from three months to five years; the longer the term, the higher the interest rate. CDs have early withdrawal penalties that can erase interest earned, so it is best to keep the money in the CD for the entire term.56 Shopping around for [the best CD rate](https://www.investopedia.com/best-cd-rates-4770214) is critical if you want to maximize your investment.

**How to Calculate Your Savings Rate**

One's [savings rate](https://www.investopedia.com/terms/s/savings-rate.asp) is the percentage of disposable personal income that is kept rather than spent on consumption or obligations.7

Say that your net income is $25,000 a year after taxes (i.e., your disposable income) and over the course of the year you also spend $24,000 in consumption, bills, and other expenditures. Your total savings are $1,000. Dividing savings by disposable income yields a savings rate of 4% = ($1,000 / $25,000 x 100).

5%

*The average personal savings rate in the U.S. (as of March 2022).8*

**Savings vs. Investing**

People sometimes use the words [savings and investing](https://www.investopedia.com/articles/investing/022516/saving-vs-investing-understanding-key-differences.asp) interchangeable, for instance saving for retirement in a 401(k) plan, but this usage is technically incorrect. Retirement "saving" is more accurately investing, since money put away in these accounts is used to purchase securities such as stocks, bonds, and mutual funds. When money is invested, it is at risk of loss—but that risk is offset by positive expected returns over time. Savings, in contrast, are by definition "safe" from any potential loss.

Additionally, savings are highly liquid and available for immediate use (e.g. using a debit card to make a purchase). Investments, on the other hand, must first be sold into usable cash. This can take some time and you may incur transaction costs. Investments, by definition, entail some sort of long-term time horizon to allow the money to grow and appreciate.

**Savings FAQs**

What Is the Meaning of Savings?

Savings simply refers to the money you've earned that is left over after all of your spending and other expenses have been completed.

What Are the Types of Savings?

Savings is essentially cash, so there is only one type of savings in that respect. However, you can choose to keep your cash savings in various places, such as under the mattress or in a bank account. Bank accounts offer several types of savings products from standard deposit accounts to checking and money market accounts or CDs.

How Much Will $1,000 in Savings Grow in a Year?

It depends where you keep the savings. If it is literally under the mattress, you'll have exactly $1,000 a year from now (and it may be worth "less" due to [inflation](https://www.investopedia.com/terms/i/inflation.asp)). If you put your money into a high-yield savings account (currently paying around 0.87% annually as of May 2022, you'd earn $8.70 after 12 months. A one-year CD may pay slightly more, say 0.96%, but your money will also be locked up for the entire 12 months, after which time you'd earn $9.60.3

How Can I Save $1,000 Fast?

The best way to increase savings is to cut down on costs. Keeping a budget and not spending loosely can help. If you spend $6 on a fancy coffee every morning before work, for example, you can buy a cheaper $1 cup of Joe instead. Say you work 200 days out of the year—you've just saved $1,000.

**What Is a Savings Account?**

A savings account is an interest-bearing deposit account 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.

Savings accounts may have some limitations on how often you can withdraw funds, but generally offer exceptional flexibility that’s ideal for building an [emergency fund](https://www.investopedia.com/terms/e/emergency_fund.asp), saving for a short-term goal like buying a car or going on vacation, or simply sweeping surplus cash you don’t need in your checking account so it can earn a little [interest](https://www.investopedia.com/terms/i/interestrate.asp).

KEY TAKEAWAYS

* Because savings accounts pay interest while keeping your funds easily accessible, they’re a good option for emergency or short-term cash.
* In exchange for the ease and liquidity that savings accounts offer, you’ll earn a lower rate than that paid by more restrictive savings instruments and investments.
* The amount you can withdraw from a savings account is generally unlimited.12
* The interest you earn on a savings account is considered taxable income.

**How Savings Accounts Work**

Savings and other deposit accounts are important sources of funds that financial institutions use for loans. For that reason, you can find savings accounts at virtually every bank or [credit union](https://www.investopedia.com/terms/c/creditunion.asp), whether they are traditional [brick-and-mortar](https://www.investopedia.com/terms/b/brickandmortar.asp) institutions or operate exclusively online. In addition, you can find savings accounts at some investment and brokerage firms.

Savings account interest rates vary. With the exception of [promotions](https://www.investopedia.com/terms/p/promotional-cd-rate-bonus-cd-rate.asp) promising a fixed rate until a certain date, banks and credit unions might change their rates at any time. Typically, the more competitive the rate, the more likely it is to fluctuate.

Changes in the federal funds rate can trigger institutions to adjust their deposit rates. Some institutions offer [high-yield savings accounts](https://www.investopedia.com/how-to-open-a-high-yield-savings-account-4770631) with significantly higher interest rates for larger minimum deposits, which may be worth investigating.

If you're ready to shop for a new savings account, check out Investopedia's list of [the best high-yield savings accounts](https://www.investopedia.com/best-high-yield-savings-accounts-4770633).

Some conventional savings accounts require a minimum balance to avoid monthly fees or earn the highest published rate, while others have no balance requirement. Know the rules of your particular account to ensure you avoid diluting your earnings with fees.

Money can be transferred in or out of your savings account online, at a branch or ATM, by electronic transfer, or by direct deposit. Transfers can usually be arranged by phone, as well.

Some banks limit withdrawals to [six per month](https://www.investopedia.com/this-government-regulation-restricts-how-often-you-can-move-money-out-of-your-savings-account-4589978). The Federal Reserve set that limit as a requirement for savings accounts but then withdrew it in April 2020. Exceed six withdrawals with some banks, and the bank may charge a fee, [close your account](https://www.investopedia.com/how-to-close-a-savings-account-7500880), or convert it to a [checking account](https://www.investopedia.com/terms/c/checkingaccount.asp). The amount that can be withdrawn is limited only to how much is in the account.2

Just as with the interest earned on [a money market](https://www.investopedia.com/ask/answers/060116/are-money-market-accounts-considered-checking-or-savings.asp), certificate of deposit, or checking account, the interest earned on savings accounts is taxable income.

The financial institution where you hold your account will send a 1099-INT form at tax time whenever you earn more than $10 in interest income. The tax you’ll pay will depend on your marginal tax rate.3

Pros

* Fast and easy to set up, and to move money to and from.
* Can be conveniently linked to your primary checking account.
* Up to your full balance can be withdrawn at any time.
* Up to $250,000 is federally insured against bank failure.

Cons

* Pays less interest than you can earn with certificates of deposit, Treasury bills, or investments.
* Easy access can make withdrawals tempting.
* Some savings accounts require minimum balances.

**Pros of Savings Accounts Explained**

**Fast and easy to set up and move money**: Holding a savings account at the same institution as your primary checking account can offer several convenience and efficiency benefits. Because transfers between accounts at the same institution are usually instantaneous, deposits or withdrawals to your savings account from your checking account will take effect right away.

**Can be conveniently linked to your primary checking account**: This makes it easy to transfer excess cash from your checking account and have it immediately earn interest—or transfer money the other way if you need to cover a large checking transaction. Because of the interest, it makes sense to keep any unneeded funds in a savings account instead of in your checking account, where it will likely earn little or nothing.

**Up to your full balance can be withdrawn at any time**: Your access to funds in a savings account will remain extremely [liquid](https://www.investopedia.com/terms/l/liquidity.asp), unlike certificates of deposit, which impose a hefty penalty if you withdraw your funds too soon.

**Up to $250,000 is federally insured against bank failure**: Federal protection against bank failures provided by the [Federal Deposit Insurance Corp. (FDIC)](https://www.investopedia.com/terms/f/fdic.asp) will [keep your money safer](https://www.investopedia.com/articles/investing/103015/cash-vs-bonds-what-pick-times-uncertainty.asp) than it would be under your mattress or in your sock drawer.4

**Cons of Saving Accounts Explained**

**Pays less interest than many other instruments or investments**: The trade-off for a savings account’s easy access and reliable safety is that it won’t pay as much as [other savings instruments](https://www.investopedia.com/terms/i/ida.asp). You can earn a higher return with certificates of deposit or [Treasury bills](https://www.investopedia.com/terms/t/treasurybill.asp), or by investing in stocks and bonds, if your time horizon is long enough.

**Easy access can make withdrawals tempting**: The ready availability of funds may tempt you to spend what you’ve saved.

**Some savings accounts require minimum balances**: Certain savings accounts request a minimum balance to avoid monthly fees or earn the highest published rate.

**How to Maximize Earnings From a Savings Account**

Although most major banks offer low interest rates on their savings accounts, many banks and credit unions provide much higher returns. In particular, [online banks](https://www.investopedia.com/terms/o/onlinebanking.asp) offer some of the highest savings account rates. Because they don’t have physical branches—or have very few—they spend less on overhead and can often offer higher, more competitive deposit rates as a result.

The key is to [shop around](https://www.investopedia.com/how-to-choose-a-bank-5183999), starting with the bank where you hold your checking account. Even if that institution doesn’t offer a competitive savings account rate, it will give you a frame of reference for how much more you can earn by moving your savings or [opening an additional account](https://www.investopedia.com/how-many-savings-accounts-should-i-have-7775519) elsewhere.

As you shop for the best rates, however, beware of account features that can curtail your earnings, or even drain them. Some promotional savings accounts will only offer the attractive rate they’re advertising for a short period of time.

Others will cap the balance that can earn the promotional rate, with dollar amounts above that maximum earning a paltry rate. Even worse is a savings account with fees that cut into the interest you earn each month.

**How to Open a Savings Account**

To set up a savings account, visit one of the bank or credit union’s branches, or establish the account online, for those institutions that offer it. You’ll need to provide your name, address, and telephone number, as well as photo identification. Also, because the account earns taxable interest, you’ll be required to provide your [Social Security number (SSN)](https://www.investopedia.com/terms/s/ssn.asp).

Some institutions will require you to make an initial [minimum deposit](https://www.investopedia.com/terms/m/minimum_deposit.asp) at the time you open the account. Others will allow you to open the account first and fund it later.

You can make your initial deposit in a savings account with a transfer from an account at that institution, an external transfer, a mailed-in or mobile deposit check, or a deposit in person at a branch.

**How Much to Keep in Your Savings Account**

The [amount you keep in your savings account](https://www.investopedia.com/articles/personal-finance/040915/how-much-cash-should-i-keep-bank.asp) will depend on your goals for the funds, or your use of the account. If you’ve set up the savings account to sweep excess funds from your checking account, your balance is likely to vary regularly.

In contrast, if you are building up to a savings goal, your balance will likely start low and increase steadily over time.

If you’ve instead established your savings account as an emergency fund, financial advisors typically recommend holding enough savings [to cover at least three to six months’ living expenses](https://www.investopedia.com/terms/e/emergency_fund.asp), giving you a financial cushion in case you lose your job, face a medical issue, or encounter another money-draining emergency.

However, some analysts recommend keeping only some of that emergency fund in a simple savings account, while moving the rest of it to an account or instrument that earns a higher return.

In any case, note that deposits at banks are covered by FDIC insurance and, at credit unions, by [NCUA](https://www.investopedia.com/terms/n/ncua-insured-institution.asp) insurance. Both of these protect each individual account holder at the institution for up to $250,000 in deposit balances, should the institution fail. For most consumers, this more than covers what they have on deposit.

But if you are holding more than $250,000 in deposit accounts, you’ll want to split your balance across more than one account holder or institution.54

How Do You Open a Savings Account?

You can open a savings account by visiting a bank branch with your government-issued ID and any cash or checks you wish to deposit. You will also be asked for your address, contact information, and a Social Security number or [taxpayer identification number (TIN)](https://www.investopedia.com/terms/t/tax-indentification-number-tin.asp). You may have to open a checking account as well as a savings account, and there may be a minimum deposit threshold. It is also possible to open a savings account with an online bank.

What Savings Account Will Earn You the Most Money?

Savings account rates change often, so it is worth taking the time to compare the offerings from different banks and credit unions. As of April 2023, the [best savings rates](https://www.investopedia.com/best-high-yield-savings-accounts-4770633) ranged from about 4.5% to 5.0%.

How Do You Close a Savings Account?

Most banks allow three ways to close an account. You can either visit the bank in person, submit a written cancellation request form, or close the account over the phone. In each case, you may be asked to provide identifying information.

**The Bottom Line**

Savings accounts offer one of the simplest ways to earn interest on the money you have. They offer higher interest rates than a regular checking account, while still making it easy to spend and withdraw money. However, savings account rates are much lower than other [investments](https://www.investopedia.com/terms/i/investment.asp), and they don't keep pace with inflation.

(Source: https://www.investopedia.com/terms/s/savings.asp)