

Interest on savings accounts is usually compounded daily and paid monthly. **Compounded interest** is the interest on a deposit that is calculated based on the original amount of money in your account (the initial principal) as well as the accumulated interest from previous periods.¹³⁶ This accumulated interest is essentially a form of “interest on interest” that can help make an account grow faster.

The great thing about compounded interest is that your bank is paying you interest on the money they've already paid you in interest! That means that if your account earns 1% interest, then each day, 1/365th of that 1% of the amount of money you have in your savings account is then added to your total.

Daily compounding = Principal $(1 + \text{interest rate}/365)^{365}$ = (daily compounded amount)¹³⁷

It should be noted that the interest an individual earns on their savings account is generally very little compared to interest earned on investments or very large deposits. The average interest rate is usually around 0.06%, which means you'll likely earn just a few cents each month depending on the size of your deposit. Many online banks and credit unions offer higher interest rates on savings accounts, which means more interest earned.¹³⁸

Note: Savings accounts are a great way to keep your money safe, earn interest on that money, save up for bigger purchases in the future, and have a safety net or “emergency fund” in case of unexpected circumstances.

¹³⁶ Jason Fernando. “Compound Interest.” *Investopedia* Feb, 16, 2021.
<https://www.investopedia.com/terms/c/compoundinterest.asp>

¹³⁷ Original material from Peerlink National Technical Assistance Center.

¹³⁸ Matthew Goldberg. “What is the average interest rate for savings accounts?” *Bankrate*, April 28, 2022.
<https://www.bankrate.com/banking/savings/average-savings-interest-rates/#:~:text=The%20national%20average%20interest%20rate,II%20earn%20on%20your%20savings.>