Title:
Choosing A High Interest Savings Account

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629

Summary:
There's more to a choosing a savings account than simply comparing basic interest rates. Different account features can suit different situations, and choosing the wrong account could be costly.

Keywords:
banking,savings accounts,high interest

Article Body:
It's always prudent to save for a rainy day, and many people with spare cash available prefer the security of placing it in a savings account to the more risky but potentially more profitable choice of other investments such as the stockmarket. Choosing a savings account would at first glance seem to be as simple as going for the one with the highest interest rate, but there are several other factors to take into account too.

The first choice to make is between opening an account with a high street bank, or going direct. High street banks give you the advantage of being able to manage your account with face to face contact with real people, and the ability to deposit cash and cheques easily. However, they have not historically offered the most competitive rates of interest, although this is changing slowly.

Direct savings accounts are operated solely online, by telephone, and by post with no possibility of visiting a bank branch to conduct business. This means they are cheaper to run for the banks, with less admin and staff costs, and so in turn they are willing to offer more attractive interest rates. Indeed, when internet direct savings accounts first appeared, some of them offered ten times the interest of a typical branch-based account, although the gap has narrowed considerably over the years.

The next choice to make is which type of savings account to go for. Amongst all the other options and features available, there are two basic kinds of account: regular savings, and deposit savings. With a regular saver account, you commit to depositing a fixed amount every month for a certain period, often a year. Most accounts will let you pay in more than this if you are able to, but if you fall below the minimum amount in a month you will likely forfeit interest payments for that month. With a deposit account there are no such restrictions - you can put in as much or as little as you want, whenever you want. On the whole, a regular saver account will offer better interest rates at the price of less flexibility.

Another factor that will affect the rate of interest you can earn is the level of access to your money you need. Basically, you can either choose a fully flexible acount which lets you deposit and withdraw funds whenever you want with no charges or penalty, or a more restricted access account which might require 30, 60, or 90 days notice before withdrawals can be made without incurring an interest penalty. Some accounts go further, locking your money in for a period of years, but these accounts are more like bonds than savings accounts, and are outside the scope of this article.

In general, you pay a price for flexibility, and so accounts with more access restrictions will pay a better rate, and so are perhaps more suited to long term investments than simply serving as a way of earning interest on spare cash that might still be needed at some point.

The other main aspect to consider is how the interest is paid. Most accounts will pay your interest in one instalment, once each year. Some, however, will credit your interest on a monthly basis, opening up the possibility of earning compound interest (i.e. where you earn interest on your previously earned interest). Nothing in the financial world is free though, so once again the flexibility of more frequent interest payments will be paid for with a lower rate.

As we have seen, there is more to choosing a savings account than simply comparing basic interest rates. Of course, you want to earn as much interest as possible, but locking yourself into an unsuitable account might not be the best use of your money.