

Savings

What it is: A savings account provides funds for emergencies and for making specific purchases in the relatively near future (usually three years or less).

How it works: Savings accounts are ideal for individuals looking to save while earning a modest amount of interest. Savings accounts are very safe and are insured through the Federal Deposit Insurance Corporation or National Credit Union Insurance Fund. The standard insurance amount is \$250,000 per depositor, per insured bank or credit union, for each account ownership category (savings, checking, or certificate of deposit). Safety of the principal and liquidity of the funds (ease of converting to cash) are important aspects of savings dollars. Because of these characteristics, savings dollars generally yield a low rate of return and often do not maintain purchasing power or outperform inflation. While there are many advantages to using these accounts, they are better used for short term savings from a few months to a few years.

Why it matters: Opening a savings account is often an important first financial milestone for a young person or an adult getting back on track. Savings accounts are beneficial for keeping your money safe while preparing for the future.

Who should care: It is clear that Americans need to be saving more. According to the U.S. Bureau of Economic Analysis, Americans are only saving around 5 percent of their income, on average. However, financial experts recommend saving 10-20 percent to adequately prepare for retirement. Cynthia Fletcher, a professor of human development and family studies, says the America Saves program is a good opportunity for everyone to assess their financial situation.

“Inertia is a huge enemy when we’re managing our money. We get comfortable and the world changes, but we don’t make appropriate changes to our savings and investments,” Fletcher said. “This can be a time for people to do a checkup and see if it makes sense to rethink their rate of savings and if they can save more.”

More information: Contact America Saves at www.americasaves.org or sign up for Money Tip\$ at blogs.extension.iastate.edu/moneytips/tag/savings/.