Savings 101

There's never been a better time to begin to put money away for a rainy day or large purchase. And with so many options available, it's also never been easier.

Standard Savings Account

This is often the first savings account that people open. Although traditional savings accounts earn modest amounts of interest, often less than one percent, they do provide you with the opportunity to store your money where you are less likely to spend it. Additionally, you have the flexibility to withdraw or transfer the money to other accounts whenever you want. However, check with your financial institution to see if there is a minimum balance that you must keep in the account in order to avoid fees.

Pros: A quick and easy way to save money each month

Cons: Lower interest rates of return; there may be monthly maintenance fees

Don't overlook online banks. *These banks have fewer overhead costs and may be able to offer better savings percentage yields.*

Money Market

For savers with higher balances, money market accounts offer the flexibility of a standard savings account with the additional benefit of higher interest rates. Typically, you must maintain a minimum balance of $2,500 to $5,000 in the account, and may be limited to how many withdrawals you are allowed each month.

Money market funds are valued at ***$2.5 trillion****.*

Source: Time, November 11, 2011

Pros: Flexibility and a higher interest yield

Cons: Limited withdrawals; interest often depends upon the balance amount (e.g., The more money you have in the account, the more interest you're likely to accrue.)

Certificate of Deposit (CD)

CDs are popular savings options for people who may not need to access their money for a while. Offered by most banks and credit unions, CDs require savers to invest a fixed amount of their money for a specified period of time, with interest rates dependent upon how much you invest—the more you put away, the higher the rate. Term limits vary from 90 days to five years, and when the funds have "matured," you'll receive the amount you deposited as well as the interest that accrued during that time. However, if you need to access the money before it has matured, you may lose the interest that has been accrued.

Pros: Higher yields than other savings plans; easy way to maintain capital

Cons: No access to the funds prior to maturity without facing a penalty; even if interest rates rise, your money is locked in at the lower rate

If your financial institution belongs to the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), your traditional savings accounts, money markets and CDs are federally insured up to ***$250,000*** *per depositor.*

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Save for Retirement

More than **73%** of Americans plan to work past the retirement age of 65.[1] Saving for retirement has never been more important. Luckily, there are many options to choose from that are designed to suit your retirement goals.

Traditional 401(k)

A 401(k) is an employer-sponsored retirement plan that allows workers to invest a portion of their pre-tax income each paycheck.

*Ask questions. Investors who sought advice about their 401(k) plan saw a **3%** higher median annual return than those who kept quiet.*[2]

Pros: Your employer contributes a specified amount to the account and may offer a matching contribution of up to 3%; you have control over how the money is invested; taxes are deferred until you withdraw the money.

Cons: You can't access your funds until age 59½; you'll face a 10% penalty and income taxes if you withdraw the funds early.

Individual Retirement Account (IRA)

An IRA is a broad term that covers a variety of retirement savings accounts. The most common are the traditional IRA and the Roth IRA. Contributions to a traditional IRA are tax-deductable while they remain in the account; however, they're taxed upon withdrawal. Conversely, contributions to a Roth IRA are not tax-deductible, but withdrawals are tax free.

Depending on the asset allocation of your retirement plan, your funds may be impacted by market downturns. Consult your financial advisor to find an investment mix that meets your retirement goals.

Pros: IRAs provide a way for those without an employer-sponsored 401(k) plan to save for retirement.

Cons: There are contribution limits of $5,000 if you're under age 50 and $6,000 if you're 50 or older; additionally, with the traditional IRA, withdrawals must begin by age 70½. With Roth IRAs, you may have to pay both state and federal income taxes on your contributions.

Sources: 1. CBS News, November 11, 2011
2. MarketWatch, September 26, 2011

Save for College

The **529 College Savings Plan** offers parents and students a tax-advantaged way to save for college. The plan is divided into two types: pre-paid tuition plans and college savings plans. All 50 states and the District of Columbia sponsor one or both plans, and many private colleges and universities sponsor the pre-paid tuition plan. For more information, go to **http://www.collegesavings.org/index.aspx**.

Pros: Earnings aren't subject to federal taxes as long as the withdrawals are used for approved college expenses; the pre-paid tuition plan allows you to lock in to a tuition price at participating public and private colleges and universities.

Cons: Money that is withdrawn that isn't used for tuition or room and board is subject to income tax as well as a 10% federal tax penalty on earnings; participation may reduce the student's eligibility for need-based financial aid.