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Getting The Most From Savings Accounts

Scott Reeves, 10.06.04, 6:00 AM ET

Interest rates are rising, creating an opportunity for savers to boost their returns.

Keep Certificate of Deposit terms short to take advantage of future rate increases. Rates are still low in historical terms so it's a mistake to lock in a long-term rate now.

"Higher rates mean a lot to savers using CD and Money Market Accounts," said Jamie Milne, chairman of the National Association of Personal Financial Advisors in Arlington Heights, Ill. "Those who rely on interest income to supplement their spending will see a little more money. However, higher interest rates are generally tied to higher inflation and the real rate of return may not be any different."

Shop around for the best deal. Many banks offer new products to entice investors. Smaller banks, hungry for deposits, may offer better terms than their giant, interstate counterparts. Don't overlook credit unions and thrifts.

The Federal Reserve Board recently raised the benchmark federal funds rate--the rate banks charge each other for overnight loans--by a quarter point to 1.75% It's the third time the Fed boosted rates in three months. This rate eventually trickles down to investors.

If you need access to your money, consider a Money Market Account. Such accounts allow the depositor to tap the money at any time without penalty, but generally pay lower rates than a CD.

Banks, such as **Capital One** (nyse: [COF](#) - [news](#) - [people](#)) or **Wells Fargo** (nyse: [WFC](#) - [news](#) - [people](#)) are likely to benefit from higher rates paid to savers because CDs are an inexpensive way to attract new deposits and may keep customers from taking their business to financial service firms, such as **eTrade Financial** (nyse: [ET](#) - [news](#) - [people](#)), **Legg Mason** (nyse: [LM](#) - [news](#) - [people](#)) or **Raymond James** (nyse: [RJF](#) - [news](#) - [people](#)), that offer a range of choices.

New products allow savers to increase the interest rate once during a CD's 30-month term while others adjust the yield quarterly based on the rate for three-month Treasury bills. Other banks offer CDs with floating rates--a good bet for savers who fret about inflation.

Those with a significant pile of cash to stash might want to consider "laddering" the expiration of CDs to catch future rate increases. By staggering the term, money is available at regular intervals to be rolled into a new account at a higher rate. This makes it easier to save, but requires some planning to get the timing right. For now, keep the terms short--probably no longer than six months.

Typical rates for a three-month CD are 1.44%; six-month, 1.66% and one-year, 2.25%, bankrate.com reported.

For Money Market Accounts, the typical rate is 1.42%; with a \$10,000 minimum, 1.56% and \$25,000 minimum, 1.86%.

Aggressive equity investors will hoot at such returns, but CDs and MMAs offer a familiar trade-off: security for lower yield.