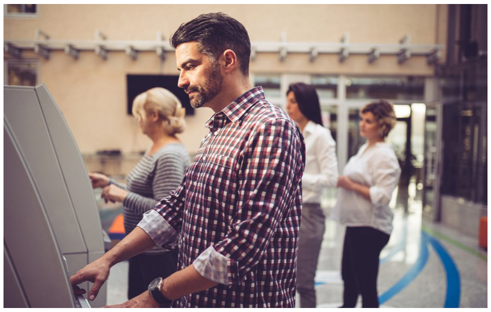
INVESTOPEDIA

CHECKING VS. SAVINGS ACCOUNTS

Checking and savings accounts can serve different financial purposes



By: Rebecca Lake - February 3, 2020

When it comes to managing money, you may be wondering whether a checking account or a savings account is better equipped to meet your needs. Surprisingly, 25% of American households are either underbanked or unbanked, meaning they have a bank account but still rely on nontraditional financial services or have no bank account at all.[1] Both types of bank accounts can help meet different needs for staying on top of your finances, though they don't function in the same way.

Key takeaways

- Checking accounts are designed to make spending money, transferring funds, and paying bills convenient—typically with no cap on the number of transactions you can have per month.
- Savings accounts can help you grow your money with interest and are subject to federal regulations governing the number of withdrawals you can make each month.
- When researching checking and savings accounts, it's important to consider the fees, annual percentage yield you can earn on deposits, withdrawal rules, and banking access, among other features.

What Is a Checking Account?

A checking account is an account held at a financial institution that allows you to make deposits and withdrawals. These accounts can offer both a debit card and check-writing capabilities. Withdrawals can take the form of cash withdrawals made at a branch or an ATM, as well as debit card purchases, checks, money orders, ACH transfers, and wire transfers. Similarly, deposits can be made by depositing cash, checks, or money orders at a branch or an ATM, as well as via mobile check deposit, automated clearing house (ACH) transfer, or wire transfer.

"If you need to use funds for daily transactions, a checking account is the best way to do that," says John Bergquist, senior founding partner at Common Sense Financial in South Jordan, Utah.

A checking account is useful if you need to:

- Pay bills electronically or via check
- Make purchases or ATM withdrawals using a linked debit card
- Transfer money to an account at a different bank electronically

Checking accounts may or may not be interest-bearing, meaning that the money you deposit earns interest as long as it stays in your account. These accounts can be offered by brick-and-mortar banks, online banks, and credit unions.

What Is a Savings Account?

A savings account is a deposit account that's designed for holding funds that aren't earmarked for paying bills or covering spending. For example, you might open a savings account to grow your emergency fund, set aside money for a vacation, build your down payment fund if you're planning to buy a home, or save money for home improvements. Like checking accounts, you can find savings accounts offered at traditional banks, online banks, and credit unions.

Between savings and checking accounts, you're less likely to earn interest with the latter. Banks pay savers an annual percentage yield (APY) as an incentive for keeping their money in their savings accounts. The APY savers can earn isn't uniform, however. It can vary from bank to bank. On average the national savings rate was 0.09% as of January 27, 2020.[2]

"An online savings account is a much better option at almost 20 times higher a rate than the traditional checking account," Bergquist says. "In fact, it's even very similar to what you would earn when purchasing a 10-year Treasury bond."

Online banks often have the capability to pass on higher interest rates to savers, owing to their lower overhead and operating costs. The rates can vary widely, but it's not unthinkable to find high-yield online savings accounts from banks and credit unions earning an APY in the range of 1.90% to 2.25%. There is, however, a catch associated with savings accounts.

Regulation D and Savings Accounts

A key mark in favor of checking accounts is the fact that withdrawals are virtually unlimited. You could use your card 10 times a day to shop or make daily cash withdrawals without being penalized by the bank. Savings accounts, on the other hand, offer access to your money on a more restricted basis.

"A new customer has to understand the limits of withdrawals from a savings account under Regulation D," says Christine O'Donnell, president of CR O'Donnell & Associates in Castle Pines, Colo. "It is usually no more than six withdrawals a month, and if this is violated, you could be faced with excessive fees or even lose your interest rate offer."

Specifically, federal Regulation D says that:

- Share savings accounts, savings accounts, and money market accounts are limited to a maximum of six withdrawals per month.
- Transactions that count toward the limit include ACH withdrawals, overdraft transfers from savings to checking, transfers made via online banking or by phone, debit card point-of-sale transactions, and transfers or withdrawals made via fax.
- Unlimited savings accounts withdrawals are allowed when they're made in-person, via mailed request, or at an ATM.[3]

If you exceed the six allowed withdrawals per month, your bank can charge you an excess withdrawal fee. Some banks can charge multiple fees, meaning you're penalized for every withdrawal beyond six. The more fees you pay, the less of your interest earnings and original deposits you get to keep.

Checking vs. Savings Accounts: Which Is Better?

When comparing checking and savings accounts, you may find that one is better suited than another to your needs, and in some cases you may benefit most from using both. Here are some questions to consider when shopping around for a checking or savings account.

- What are the fees associated with the account? For example, is there a monthly maintenance fee?
- Is there a minimum balance requirement that needs to be met?
- Does a savings account come with an ATM card or a debit card?
- Are there daily limits on ATM withdrawals for checking accounts?
- Are there daily limits on deposits for a checking or savings account?
- Does the account earn interest, and, if so, what is the APY?

You should also check to see whether the bank offers any special perks for opening an account. "Banks are highly competitive in a ridiculously low-interest-rate environment, and there are occasional incentives that could make a checking or savings account more attractive," O'Donnell says. For example, you may be able to join a debit card rewards or discount program that could save you money, or you could take advantage of promotional deals for opening other accounts, such as a money market or certificate of deposit account.

Lastly, keep in mind the kind of access you need when it comes to banking. Whether you choose a checking or savings account, consider whether the bank offers the online and mobile banking tools you need to manage your money digitally, the number of ATM locations, and whether branch banking is available, if that's something you occasionally use.