Choosing the Right Savings Account

A savings account is a good way to save money for short-term goals or to build an emergency fund for unexpected expenses. The interest rate, account fees and the ability to access your money easily are important factors in choosing a savings account. Our online Savings Account Selector Tool at fcac.gc.ca can help you compare interest rates and fees to find the best savings account for your needs.

What is a savings account?

A savings account is a deposit account offered by financial institutions that pays interest on your deposits (the principal).

Savings accounts often include only a limited number of transactions and may have higher transaction fees than a chequing account. Certain savings accounts require a minimum deposit to set up the account.

You can open a savings account at a bank, credit union, *caissse populaire* or trust company.

Things to consider

Shop around when choosing a savings account and compare these features:

INTEREST RATES

Financial institutions pay interest on the money you deposit into your account. Each month, the financial institution deposits the interest owed to you directly into your account. The higher the interest rate, the more money you will earn.

Financial institutions sometimes offer high-interest introductory rates which run for a certain length of time, after which the rate may be lower. Make sure that you will still earn a competitive rate after the introductory period ends and that you understand the terms of any introductory offers.

Most savings accounts will pay you interest regardless of how much money you have in your account; however, some institutions require that you keep a minimum balance in order to earn interest. For example, you might need to keep a minimum balance of $1,000 before the financial institution pays interest on your account.

HOW IS INTEREST CALCULATED?

Most financial institutions advertise an annual interest rate; however, interest is usually calculated monthly or daily.

Look carefully at the terms of the account to find out how the financial institution will apply interest. Some apply two or more different interest rates to your balance. If so, find out:

- Will the higher interest rate be paid on *all* of the money in the account once your savings go above a certain amount?
- Will the higher interest rate only be paid on the portion of your balance that is above a certain amount?

For example, a financial institution might pay 1% on the first $1,000 of your balance and 2% on amounts above $1,000. Another financial institution may apply 2% interest to the entire amount of your balance as long as you keep at least $1,000 in your account.

Certain financial institutions may not pay interest in the month a withdrawal is made. Ask your financial institution about how it pays interest to your account.

WHAT IS COMPOUND INTEREST?

With compound interest, the money you earn in interest is added to the principal, and also starts to earn interest. The more often your interest is compounded, the more your account will grow.

When a financial institution advertises a savings account interest rate, that usually means a compound interest rate. Most accounts compound interest monthly, but some compound interest daily.

For example, if a bank advertises a savings account with a 2% annual interest rate compounded monthly, after a year you will have earned 2% interest (plus compounding) on your deposits. You will *not* be earning 2% interest on your deposits every month.

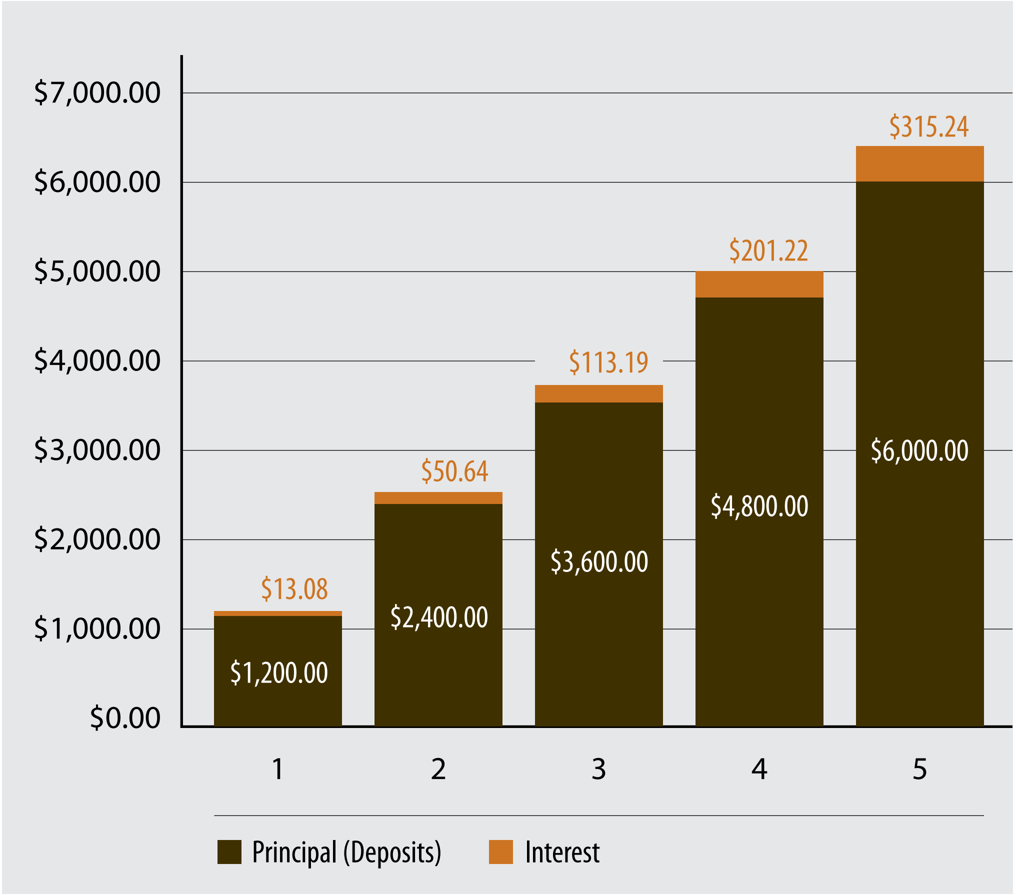
Ask your financial institution how often it compounds the interest in your account.

EXAMPLE

Anne deposits $100 into her savings account every month, and her money starts to earn interest as soon as she deposits it. Her account has an annual interest rate of 2%, compounded monthly. This means that each month, she will earn approximately 0.167% (2% divided by 12 months) on her balance, including any interest paid in the previous months.

After one month, Anne has $100 in her account and will earn only $0.17 interest on that balance ($100 × 0.167%). After the second month, her interest will be calculated based on her $200 of deposits, plus the $0.17 interest earned in the first month. On a balance of $200.17, she will earn $0.33 in interest ($200.17 × 0.167%).

Each month, the amount of interest Anne earns will increase. By the end of the first year, she will earn a total of $13.08 in interest. The longer she continues to save and earn compound interest, the faster her savings will grow, as shown in the chart below[1].



1. **Note:** Figures used in this example are approximate. Actual results will depend on the how the financial institution calculates interest.

For example, the formula may depend on the number of days in the month and this would result in slightly more interest being paid in the longest months.

SERVICE FEES

Most financial institutions do not charge monthly fees for maintaining a savings account. However, you may still have to pay fees for transactions such as withdrawals or transfers.

Some financial institutions offer a limited number of free transactions; others require you to maintain a minimum monthly balance if you want to avoid paying fees; and some offer an unlimited number of free transactions.

Find the financial institution that has not only the services that you want, but also good interest rates and few or no fees. Use FCAC's interactive Savings Account Selector Tool at **fcac.gc.ca** to help you compare interest rates and fees.

Your financial institution must provide you with a copy of the account agreement, which lists the terms, conditions and fees of the account. Keep a copy for your records and be sure you understand all the terms, conditions and fees before signing up for the account. Ask questions about anything that is not clear or that you don't understand.

FCAC ensures that federally regulated financial institutions comply with federal laws in place to protect the rights of consumers of financial products.

ACCESS TO YOUR MONEY

A savings account usually offers quick and convenient access to your money.

If you use your account mainly to save money, you will likely need to make only occasional transactions, such as withdrawals. Still, if you do need to withdraw money from your account, ask your financial institution:

- Is there a fee for withdrawals?
- Can you access your money from a conveniently located ABM?
- Do you have to transfer money from your savings to a chequing account before you can withdraw the money? If so, you may need an extra day to transfer the money before withdrawing it.
- Can you transfer funds to another account over the Internet or by telephone?

TAXES

You will usually have to pay income taxes on any interest that you receive. If your goal is long-term savings, consider a Tax Free Savings Account, which offers more benefits than a traditional savings account. See FCAC's tip sheet *Thinking of Opening a Tax-Free Savings Account (TFSA)?* for more information.

Notes

How are my savings protected?

Deposit insurance protects Canadians' savings in case a financial institution fails.

If your financial institution is a member of the Canada Deposit Insurance Corporation (CDIC) and goes bankrupt, **up to $100,000** of your eligible savings **in Canadian dollars** will be insured.

Most banks and federally regulated trust companies in Canada are members of CDIC. Deposits in credit unions or *caisses populaires* are covered to a similar or greater level by provincial deposit insurance plans, which vary by province.

Check with your financial institution about which deposit insurance corporation insures your deposits. For more information about deposit insurance, visit CDIC at **www.cdic.ca**.

About Financial Consumer Agency of Canada (FCAC)

With educational materials and interactive tools, the Financial Consumer Agency of Canada (FCAC) provides objective information about financial products and services to help Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. FCAC also makes sure that federally regulated financial institutions, payment card network operators and external complaints bodies comply with legislation and industry commitments intended to protect consumers.

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