Checking and Savings Accounts: The Basics

Banks and credit unions typically offer two types of accounts: checking accounts and savings accounts. If you have never opened either type of account before, here is some basic information you should know.

Checking Accounts

A check is a piece of paper that stands in for cash. You can write a check from a checking account and give it to someone or a store, and that check will be considered payment for goods or services you have purchased. Your check will be deposited into a bank or other financial institution, which will then ask your bank to debit the cash from your checking account and send it electronically over to the other bank.

This routing of cash from your account to the other account will happen in just 48 hours, if both institutions are in the same state, or within a few days if they are located in different states.

A checking account is used to make check deposits, to write checks to pay bills and to make cash withdrawals. Usually, a checking account comes with a debit card, which like a check allows you to use the money in your account to cover your purchases. The funds are taken out of your account immediately when you pay with your debit card. Some checking accounts pay interest on the balance you keep, but it's usually a very small amount.

Special Types of Checking Accounts

If you're a senior citizen or a student, you can cash in on your status at many banks and save money in the process. Some banks offer basic, no-frills checking accounts to students and seniors that include benefits like free personal checks, wider ATM use (for reduced or zero fees) and better rates on auto loans and credit cards. If you have a chunk of cash you want to deposit into an interest-bearing checking account, you need to understand what this entails. To open one of these accounts, you'll probably have to meet a minimum balance requirement and maintain an even higher minimum balance on a daily basis to avoid fees.

Depending on the amount of cash you keep in the account, you could get a higher interest rate—but don't expect big returns. The interest rates on these accounts is not very high—you'd earn a higher rate of interest elsewhere, such as with a certificate of deposit (CD) or Treasury Bill.

The Four Main Types of Checking Accounts

Although banks and credit unions will often give them fancier names, there are four main types of checking accounts:

1. **Basic Checking:** Usually no minimum balance is required for a basic checking account, but you will pay all kinds of fees for doing business with the bank. Some banks charge you for every check you write. Others charge a monthly account maintenance fee of between $10 and $20. And some banks limit the number of checks you can write each month.
2. **Discount Checking:** Discount checking accounts have few monthly fees, but you are limited in the number of transactions you can make with one. Each check you write and each withdrawal or deposit you make is counted as one transaction. Sometimes a bank will add an additional charge when you visit the teller window. Fines for exceeding the transaction limit can pile up fast.
3. **Premium Checking:** You need a large minimum daily balance (often $5,000 or more) to have a premium checking account, but in return you get unlimited, free banking privileges such as free checks and free use of other banks' ATMs. If you let your balance fall below the minimum, though, you may face a stiff monthly fee—often $20 or more.
4. **Online-Only Checking:** With an online-only checking account, you can expect to pay a low monthly fee, but you will be able to pay your bills electronically. (Usually, you aren't offered paper checks.) You can transfer money from one account to another and use ATMs for withdrawals, but you must have your paychecks electronically deposited—most online-only banks will charge you a fee to deposit paper checks.

Savings Accounts

In simplest terms, a savings account is used to save money. Unlike most checking accounts, you will earn interest on the money you keep in the account.

A savings account is a safe place to keep money you don't want to spend right away but might need to keep easily accessible (also known as “liquid” cash) for emergency funds or an upcoming big purchase. If you open up a savings or checking account in a bank that is FDIC-insured, or a credit union that is a member of the National Credit Union Administration (NCUA), your cash is insured up to $250,000 per institution, in case the bank or credit union goes out of business.

To make the most of your savings account, avoid making frequent withdrawals. Look for accounts with a decent interest rate and low or no maintenance fees.

Types of Savings Accounts

There are two main types of savings accounts:

1. **Basic savings account:** This type of account, also sometimes called a passbook savings account, usually has no minimum balance requirement or a very low one. Unfortunately, it also carries a low interest rate. You can typically take money from the account whenever you want by filling out a withdrawal slip and taking it to the bank. You can also make transfers online from your savings account into

your checking account. You may be able to make withdrawals and deposits from an ATM, but check with your bank if they allow ATM access or charge extra fees. When you open this type of account, you'll be given a small book called a register in which you can record your deposits and withdrawals.

2. **Money-market account:** This type of account will pay more in interest, but it usually requires a minimum balance of $1,000. You may be allowed to write several checks each month on the account, but you will be limited on how many withdrawals you can make each month.

Most companies that pay by direct deposit will allow you to send a specific amount of cash from each paycheck directly to a savings account. If you are trying to build up your savings, having your company automatically deduct the amount from your paycheck and deposit it into your savings account is an excellent way to start.