YOUR MONEY-How to play the savings interest rate game

729 words
23 July 2019
10:00
Reuters News
LBA
English

NEW YORK, July 23 (Reuters) - Looking for the best interest rate for your savings account?

The landscape is about to change dramatically. Thanks to increased competition, some online banks are pushing yields up on savings accounts just as the U.S. Federal Reserve is expected to cut interest rates.

On Tuesday, robo-adviser Betterment unveiled a suite of banking products headlined by a savings account with a rate of 2.67%. Until now, Betterment has primarily been an investment adviser, with 450,000 customers and $18 billion in assets under management.

Betterment's no-fee savings accounts will be FDIC-insured. An additional checking product, which will have a lower rate, will be available in a few months.

Betterment is joining Wealthfront, which leapt into the online savings account market earlier this year, with a rate of 2.57%. This coincided with Goldman Sachs' Marcus' cutting its rate from 2.25% to 2.15%, and Ally's lowering its rate from 2.2% to 2.1%. At sites that aggregate top rates, the range is from 2.5% to 2.0%.

Bankrate.com, for one, does not list financial products like Betterment's and Wealthfront's because they are not direct banks, but rather partner with deposit banks under proprietary contracts, said Greg McBride, chief financial analyst at Bankrate.com.

The rate game may reset soon because the Federal Reserve is expected to cut interest rates at least a quarter point at its upcoming meeting on July 30-31. And if not then, the Fed may cut rates later this year. Some forecasters predict up to three rate cuts by the end of 2019.

"When the Fed moves rates, all banks move. If the Fed moves rates up, rates go up. If Fed goes down, rates go down," said Jon Stein, CEO of Betterment.

Both Wealthfront and Betterment had plans in place to enter the banking market and said they would weather the rate roller coaster. Officials at each firm said they pass savings along to the consumer as they can, rather than taking more profit.

"Banks are taking a much larger spread," said Kate Wauck, vice president of communications for Wealthfront, who said that in less than two months, the company had more than $1 million in deposits into cash accounts.

FIGHTING INERTIA

For consumers trying to figure out where to keep their cash, the first thing to consider is what your savings rate is now. Most investors have money at extremely low-rate major banks where the average rate is less than 1%.

"Why are there trillions in savings at the biggest banks, earning 0.1%? To me, that’s the story," said Bankrate's McBride.

It might not be worth the hassle to move funds, though. If you already have $10,000 in a high-yield account, the difference among the top competitors is less than $10 a month.

Personal finance guru Ramit Sethi, who has a new edition out of his book "I Will Teach You to Be Rich," recommends focusing more on how much you can put into a savings account - save 1% more and you make tens of thousands.

"Then you never have to worry about affording an appetizer and dessert again," Sethi said.

A half a percentage point difference could be the dividing line, said Chris Horymski, senior research analyst at MagnifyMoney.com, which includes a "hassle factor" in its assessment of banks.

Consumers also have to consider what restrictions come with high-yield online savings accounts - some have high balance requirements, some have longer wait times to transfer money, some have hidden fees.

There is often a high inertia factor of just wanting to stay at one's current bank and a degree of discomfort at not having access to a local branch, Horymski said.

There is also the perennial problem of people thinking they do not have enough money to make a savings account worthwhile.

Sethi has an answer to that, which starts with figuring out what you love to spend money on and finding a way to prioritize.

"There's a limit to how much you can cut, but there's no limit to how much you can earn," Sethi said.

(Reporting by **Beth Pinsker** Editing by Lauren Young and Leslie Adler)

Released: 2019-7-23T15:00:00.000Z

Reuters News & Media Inc.

Document LBA0000020190723ef7n02ore