EVANS EDWARDS

FINANCIAL ADVISORS | WEALTH CREATORS

Term deposit vs savings account

Putting your money into a savings account, or in the alternative, a term deposit, are two common methods of saving. Working out whether either of these options are right for you depends on your personal and financial circumstances, as well as your saving goals. Here are some of the common features and benefits of each.

Term deposits

Term deposits work by locking your money away for a certain timeframe (or 'term') in exchange for a fixed interest rate return at the end of that term. A general rule of thumb is the longer the term, the higher the interest rate. Terms vary, but usually range from as short as one month to as long as five years. They're worth considering if you're looking to get an exact amount by a certain date, and don't need to access the money before maturity.

Pros

- The return on term deposits carries more certainty than most savings accounts, as the interest rate is guaranteed.
- Usually these accounts come with no set-up fee. They often offer a higher rate of return to compensate for your money being out of reach for the entire duration of your term.
- They're a set-and-forget type of investment, so you don't need to worry about fluctuations in the cash rate.

Term deposits give you the assurance that you'll know what you'll get in return if you leave your money in for the full term. It also means if interest rates fall during that time, you're likely to do relatively well with a locked-in rate.

Cons

- If the cash rate rises, you won't be able to obtain the benefit of that increase for your term deposit.
- Your money is locked away for the full term.
- You'll have to give notice to access it early, usually around 31 days.
- You'll have to pay a penalty fee or earn less interest if you take your money out before the end of the term.
- A minimum initial deposit is required, which can vary widely.
- There's no option to top up funds once you've opened a term deposit.

Savings accounts

Savings accounts are more flexible than term deposits. Accordingly, a savings account might be more attractive if accessing your money at short notice is important.

Pros

- Add or withdraw funds at any time.
- May be able to link to an everyday transaction account.
- Interest rates may rise, giving you more for your money.

Some banks offer bonus interest rates, often called 'honeymoon' rates, to new customers. You may get a higher rate for a number of months, or a similar financial incentive, after which your funds move to the standard variable interest rate. A savings account can be useful when you want to put your money away and have earned some interest with the peace of mind that you can also access your funds as and when you need to.

Cons

- Interest rates may fall, giving you less than you expected at the outset.
- If you withdraw funds you may lose interest for that month, or whatever length of time applies to your account.
- You may be required to make minimum monthly deposits to earn interest.
- You may need to maintain a certain balance to avoid any potential fees or loss of interest rate benefits.

Some savings accounts limit your ability to access your money to help you avoid dipping into your savings. For instance, savings accounts generally don't come with debit cards or ATM access, so this may be something you want to know.

How fees compare

Term deposits usually come with no set-up fee. However, if you need to withdraw your money before the maturity date, you'll likely have to give notice in advance of your withdrawal and pay a fee or earn less interest.

Some savings accounts attract set-up fees and may also include anything from monthly account keeping fees to withdrawal fees.

So, when it comes to comparing accounts, make sure you're across any potential fees or charges your provider may apply to your account.

Source: AMP

We will guide you with a tailored approach that works for your circumstances. Give us a call on 4927 4588 (Rockhampton) or 4939 1766 (Yeppoon) to see how we can help.

EVANS EDWARDS

FINANCIAL ADVISORS | WEALTH CREATORS