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3 WAYS YOUR CASH COULD EARN MORE

Rising rates are improving returns for cash

By: Kayleigh Kulp - May 29, 2018

It's hard to believe, but a little more than a decade ago, savers could earn up to 5 percent annual interest from bank certificates of deposit and savings accounts.

That was before the financial crisis forced the Federal Reserve to lower short-term interest rates to nearly zero and keep them there for years.

"Suddenly, most traditional savings vehicles paid little to no interest, effectively punishing savers," says Drew Kellerman, founder of Phase 2 Wealth Advisors in Gig Harbor, Washington. "Many people gave up on the idea of growth on their savings. That appears to be changing now."

With interest rates slowly rising and projected to rise a bit more this year, savers now have an opportunity to make a better return on their cash savings.

This is particularly advantageous if you're nearing retirement, since the percentage of money you keep in low-yield, safer accounts should also increase with age, says Matthew J. Ure, retirement management analyst and regional vice president for Anthony Capital in Garden Ridge, Texas. That way, if there is a catastrophe and you need the money before bonds and certificates of deposit mature, you can cash out with only minor penalties.

Which savings vehicles are best depends on your goals and circumstances: How long can you afford to park your cash? Are you comfortable banking exclusively online? How do you plan to diversify? How much liquidity do you need in the short term?

To earn the best interest rates, you'll have to commit to keeping your money in accounts for a specified time and diversify your funds to ensure they are appreciating above inflation, says Benjamin Sullivan, certified financial planner and enrolled agent with Palisades Hudson Financial Group in Austin, Texas.

"Your savings strategy is simply one component of what ought to be a comprehensive, holistic financial plan that considers all your assets, your cash flow needs, your short- and long-term goals, your time horizon, your financial risk tolerance and personal preferences," Kellerman says.

Here are some ways to safely put that cash to work.

High-yield online savings accounts. About 5 to 10 percent of your savings, or three to six months of your expenses, should remain completely liquid, says Joel S. Salomon, a former hedge fund manager and owner of SaLaurMor Management in New York. As long as you don't mind banking exclusively online, without local branches or tellers, you can earn great rates with online accounts. Interest rates for online accounts are currently approaching 2 percent and are much more attractive than rates most brick-and-mortar banks pay, says Sullivan. Marcus by Goldman Sachs is paying 1.7 percent with a $1 minimum, while Radius Bank pays 1.86 percent on a $25,000 minimum deposit, according to Bankrate.com.

Certificates of deposits and Treasury bills. CDs and Treasury bills can earn more income than online savings accounts, but your access to the funds will be limited because they must be held for a minimum amount of time, Sullivan says. You'll need to identify the specific CDs or Treasurys you want to buy and then restart this process each time the holdings mature, which could be anywhere from a few days for Treasury bills to many years with CDs. Treasury bills are often sold at a discount from the face value, which is the value once the bill matures.

If you shop around for CDs, you can probably find a suitable combination of term and rate. You can even ladder CDs so that they mature at different times, says Alexander S. Lowry, a finance professor at Gordon College in Wenham, Massachusetts. This allows you to exit one or more of the CDs if interest rates rise. "A CD ladder will get you higher interest rates without sacrificing accessibility," he says.

The five-year Marcus by Goldman Sachs CD is currently at about 2.8 percent, says Kellerman. A one-year CD earns about 2.2 percent at Goldman Sachs, Barclay and Capital One, while a six-month CD at Ally Bank is about 1.5 percent. Many CDs don't have minimum deposits.

You'll want to check that the Federal Deposit Insurance Corp. insures the bank providing a CD. Doing so is "as simple as examining the website of the issuing bank for member FDIC postings or inquiring with a representative by phone or in person," says Jim Brown, a certified public accountant and author of YourBestMindset.com, an online guide for choosing a financial advisor. FDIC signs are often posted on bank windows or on plaques inside bank branches. You can also verify whether the bank is insured by calling the FDIC at 877-275-3342.

Short-term municipal bond funds. Whether you're saving with a five-year horizon or for retirement, consider diversifying your savings with bond funds to ensure your money keeps up with inflation, Sullivan says. Bond prices and interest rates are inversely related: If interest rates increase, bond prices will decrease. Still, short-term municipal bond funds are a good compromise for rate of return and risk.

"An appropriate investment strategy for your savings should take into account that interest rates are likely to rise but shouldn't assume that rising rates in the near-term are a certainty," Sullivan says.

And by investing in bonds with near-term maturities, you can yield 2 to 3 percent immediately without experiencing much loss if interest rates rise, Sullivan says. Municipal bonds offer a better after-tax return because the interest is always exempt from federal income tax and may also be exempt from state or local income tax, he says.