



Make Your Money Work for You

Your money is an asset, and it should work hard for you in the same way you work hard to earn it. While this may sound very general, there are three components of putting your money to work that you should pay particular attention to:

- Put as much money as you can to work as fast as possible.
- Earn as high of rates as you can on your funds.
- Avoid costs associated with your funds, such as fees and interest costs.

Your Money Works for You

One of the benefits of “owning money” is that others will pay you for the use of your money. That benefit is called interest. When you deposit money in your financial institution, the institution uses your money to make loans or to make investments. They pay you interest for using your money. They make money by earning more on it than what they are paying you.

The Wonder of Compound Interest

Compound interest is sometimes called one of the wonders of the financial world. Very simply, compound interest just means you earn interest on your interest. The terms “compounded daily”, “compounded quarterly” or “compounded annually” simply refer to when the interest is added to the balance and begins earning more interest.

The Rule of 72 is an easy way to estimate relatively accurately the impact of different interest rates over different periods of time. The thing to remember is that money doubles when the interest rate times the number of years equals 72.

- Money doubles in 6 years at 12%.
- Money doubles in 10.2 years at 7%.
- Money doubles in 12 years at 6%.
- Money doubles in 8 years at 9%.
- Money doubles in 9 years at 8%.

While the Rule of 72 will not give you precise results, it is an easy way to get a good estimate in a hurry.

Two simple ideas to put your money to work

- Use direct deposit to get your paycheck deposited quickly, safely and conveniently.
- Do not have excess money lying around. It will be safer and earning more money for you if it is in an account at your financial institution.

Earning the best interest rates you can

Different types of accounts pay different interest rates. Institutions usually base their interest rates on the amount of money in the account and the level of transactions in the account.

- Checking accounts usually pay the lowest interest rates and provide the capability for the most transactions.
- Savings accounts usually pay somewhat higher rates, but with less transaction capabilities. You usually can not write checks against savings accounts or if you can, the number may be limited.
- Certificates of deposit are slightly different. You choose a length of time you are willing to leave your funds deposited and depending on the length, you earn different interest rates. You can cash in your CD early, but will probably be subject to a fee.

Here are some sample interest rates on different types of accounts:

Account type	Interest rate
Checking account	0.25%
Savings account	0.50%
6 month CD	2.45%
12 month CD	3.10%
24 month CD	3.60%
48 month CD	4.10%

You should try to estimate your liquidity needs (how much money you will need and when you will need it) and then move excess funds to higher earning accounts. Move money you will not need for monthly expenses into your savings account. As your savings account grows and you find that you do not need immediate access to all of it, you can move some funds to higher paying CDs with maturities that match your anticipated spending needs.

Avoiding needless fees and interest costs

After working hard to earn your money and having your money working hard for you, be sure to handle your finances in ways to avoid or reduce as many fees as possible. For example, incurring five \$3 fees for using an ATM machine (\$15) would entirely offset earning 0.50% interest on a \$3,000 balance in a savings account for an entire year.

Fees and charges to avoid

- *ATM fees* – Be sure to use ATM machines associated with your financial institution to avoid fees.
- *Minimum checking account balance fees* – If your checking account requires a minimum balance, be careful to not let your balance fall below the minimum. You may want to transfer funds from your savings account to avoid the fee.
- *Excess transactions fees on your checking account* – If there is a limit on the number of checks you can write each month, do not exceed it.
- *Utility bill payments* – Some utilities (electricity, gas, and phone) allow you to pay a bit less if your payment is received by the due date.
- *Interest on unpaid credit card balances* – Balance monthly or pay down your balances as quickly as you can even if you have to use some of your savings.
- *Late payment charge on credit cards* – A \$20 late payment fee when paying a credit card bill equates to all the interest you would earn on a \$4,000 balance in a savings account paying 0.5% interest.