UNIVERSITY OF DELAWARE
COOPERATIVE EXTENSION

Building Your Financial Future

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Millions of people nationwide are becoming wealthier by boosting savings and paying down debt. As savings accumulate, consider saving and investing ideas for where to put your extra money. As always, when saving and investing your money, do your research and ask questions about anything that is unclear.

1. Bank Savings Account or Credit Union Shares Account. Opening a financial account is a great step, starting with the first $500 or the minimum balance needed to avoid fees. Benefits include the safety of your principal and liquidity. Be sure to keep the minimum balance required by your banking institution.

2. Certificates of Deposit (CDs). Minimum denominations typically range from $250 to $500. CDs offer a fixed interest rate over a specified period. Normally, they earn a higher interest rate than savings accounts. The money is deposited into a CD account. Once the CD matures, the funds, along with accrued interest, can be withdrawn. However, there is a penalty for early withdrawals.

3. High-Yield Savings Account. Similar to a traditional savings account, but offers a higher interest rate (potentially 10 to 20 times greater than the national average for standard savings accounts) with no increased risk. Before using a HYSA, verify that the bank is FDIC insured and ensure you won't need the money for daily expenses.

4. Employer Retirement Plans. Specific plans include 401(k) for corporate employees, 403(b) for school and nonprofit employees, and Section 457(b) plans for county and municipal government workers. Savings are deducted directly from your paycheck and are usually pre-tax dollars. The minimum per-paycheck contribution could be as little as $10 or one percent of your salary. Review the investment options available to plan participants and select growth products, such as S&P 500 index funds, growth funds, and growth and income funds, especially if retirement is 5-10 years or more away. It is always helpful to speak with the investment representative at your employer's business.

5. Individual Retirement Accounts. IRAs are tax-deferred investments. All workers with earned income can contribute up to $7,000 annually or $8,000 if you are age 50 or older. IRAs are intended for retirement savings, so there is usually an early withdrawal penalty of 10% if money is withdrawn before age 59 ½.

6. Money Market Mutual Funds. Money market mutual funds primarily invest in short-term debt securities, typically with maturities of one year or less, and are issued by governments, government agencies, and corporations. Minimum initial investment requirements are generally low, often $1,000 or less, and some funds now offer accounts with no minimums. While certain funds still offer limited check-writing privileges, this feature is less common today due to digital banking alternatives. Despite their stability, money market mutual funds are not insured by the FDIC. It is important not to confuse money market mutual funds with money market deposit accounts (MMDAs), which are bank products insured by the FDIC.

7. U.S. Savings Bonds. There are two types of U.S. Savings Bonds - EE Bonds and I Bonds. They are

purchased for one-half of their face value (e.g., $25 for a $50 bond). EE bonds have a fixed interest rate that remains unchanged for at least the first 20 years. I bonds will earn a rate that can change every six months (in November and May). For more information and to purchase bonds, please visit the government website using the provided link. [Treasury Direct]

8. Treasury Notes. Treasury notes are issued for 2, 3, 5, 7, or 10 years and pay a fixed rate of interest every six months until the notes mature. Treasury notes have a minimum purchase of $100. Purchase Treasury notes and bonds directly from the Federal Reserve Bank, through its Treasury Direct system, or through a bank or brokerage firm, where you will be charged a fee. Federal tax is due each year on the interest earned.
9. Christmas (Holiday) Clubs. To prepare for the holidays and avoid overspending, consider opening a Holiday Savings Club account to provide peace of mind during the season. This type of account allows you to save throughout the year for holiday expenses. Most institutions offer a coupon book or direct deposit. Usually, little or no interest is paid on "club" accounts, but they are a great way to save small amounts weekly.
10. Corporate Bonds. These are IOUs issued by a company and usually sell for $1,000. Investors earn a fixed amount of interest at regular intervals, typically every six months, until the bond matures. Select investment-grade securities that have ratings indicating the issuer's ability to meet its financial obligations.
11. Growth and/or Income Mutual Funds. Owning shares in a mutual fund gives you an ownership interest in the stocks (growth funds), bonds (income funds), or other securities that comprise its portfolio. A professional manager is hired to make investment decisions. Many funds require initial deposits of $2,000 or less. Subsequent deposits are generally much lower (e.g., $100). Funds that require more than $2,000 often accept less for IRAs, sometimes as little as $500. Check the fund prospectus for details.
12. Unit Investment Trusts (UITs). Sold by brokerage firms, unit trusts are a portfolio, usually of bonds or mortgage-backed securities (e.g., Ginnie Maes), that are sold to investors in small pieces called units. The cost of a unit is generally $1,000. Unlike mutual funds, however, UITs are not professionally managed. Instead, the securities in the portfolio are simply held to generate interest, which is distributed proportionately to investors. When the bonds in a UIT mature or are called, investors receive a portion of their principal back. When the last bond in the portfolio is redeemed, the trust ceases to exist.

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