Cash Management Tools

There is a wide range of accounts available to a consumer to control his or her monthly cash flow. Such cash management tools are characterized by easy access to funds, as well as providing for safety of principal.[1] They are typically used for transaction purposes, or as a place to store readily available savings.

Transaction-Oriented Accounts

There are several different types of accounts that are used for transactions such as paying bills:

- **Demand deposits (checking accounts):** Demand deposits in banks and savings and loans are accounts which do not earn interest and which are payable to the owner on demand. Checks or electronic debit cards are used to transfer funds to a third party. Most financial institutions offering checking accounts are protected by federal deposit insurance on account balances up to $250,000.

- **Negotiable order of withdrawal (NOW):** NOW accounts are a type of interest bearing savings account against which checks can be written or electronic debits made. Credit unions offer a similar option in the form of a share-draft account. Most financial institutions offering NOW accounts are protected by federal deposit insurance on account balances up to $250,000.

- **Money market deposit accounts (MMDAs):** Like NOW accounts, MMDAs are a form of savings account against which checks can be written. Unlike NOW accounts, however, MMDAs are limited to six transactions per month. Transfers in excess of these limits can be subject to penalties. Minimum balance requirements for MMDA accounts tend to be larger than for NOW accounts, and MMDA accounts usually pay a slightly higher rate of interest. Most financial institutions offering MMDA accounts are protected by federal deposit insurance, on account balances up to $250,000.[2]

[1] Most checking and savings accounts in the U.S. are protected by either the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

[2] Some mutual funds offer a money market account with a name similar to money market deposit account. These mutual funds are not protected by federal deposit insurance.

Savings Accounts

Savings accounts differ from transaction-oriented accounts in that access to funds in savings accounts may be restricted.

- **Statement savings accounts:** Statement savings accounts, formerly known as "passbook" savings accounts, usually accept small deposits, have no fixed maturity date and pay a relatively low interest rate. Banks and savings and loans that provide this type of account can require a 30-day notice before funds are withdrawn. In practice, however, most institutions do not require advance notice before allowing depositors to withdraw funds. Most financial institutions offering these accounts are protected by federal deposit insurance, on account balances up to $250,000.
- **Certificates of deposit (CDs):** CDs are bank or credit union liabilities which have a fixed maturity date and require certain minimums, for example, $10,000. Some institutions will issue a CD for as little as $500. Interest rates can be either fixed or variable. A substantial penalty[1] generally applies for withdrawals made before the maturity date. Most financial institutions offering these certificates are protected by federal deposit insurance, on account balances up to $250,000.
- **Jumbo CDs:** Jumbo CDs are similar to regular CDs in that they are obligations of the issuing financial institution, have a fixed maturity date, and earn a specified rate of interest. Technically, jumbo CDs are issued only in amounts of $100,000 or more. The interest rate can be either fixed or variable. Penalties apply if funds are withdrawn before the maturity date.[1] Most institutions offering these certificates are protected by federal deposit insurance, on account balances up to $250,000. Amounts in excess of $250,000 are not protected by federal deposit insurance.

Other Options

In addition to the traditional cash management tools available through banks, savings and loans, and credit unions, several other options are available.

[1] The penalty for cashing in a CD before its maturity date will vary from one institution to another. Generally, for CDs with a maturity of less than one year, the penalty is loss of three months' interest. For CDs with maturities longer than one year, the penalty can range from 6 months' interest to 12 months' interest.

- **Money market mutual funds (MMMFs):** Money market mutual funds are a specialized type of mutual fund that invests in short term debt such as CDs, high-grade commercial paper, and U.S. Treasury securities. MMMFs are sold by prospectus[1] and usually have minimum balance and transaction limits. Such funds strive to maintain a constant share price of $1.00 per share. There is no guarantee that a fund will be able to maintain a constant share price, nor is there government insurance for such funds. MMMFs typically pay a slightly higher return than do federally insured accounts.

- **U.S. savings bonds:** U.S. savings bonds are both issued and redeemed by the federal government. As an asset class, they are considered to be very safe from default risk and thus earn a relatively low rate of interest. There are three types of savings bonds:

  - **Series EE bonds:** Series EE bonds are considered the "classic" form of U.S. government savings bond:

    - **Paper Series EE bonds:** Effective January 1, 2012, new Series EE bonds may only be purchased in electronic form. Prior to that date, paper EE bonds could be purchased over-the counter at banks and other financial institutions. Such paper EE bonds were sold at 50% of face value, in denominations ranging from $50 to $10,000. "Interest" on existing paper EE bonds is earned by a gradual increase in the value of the bonds.

    - **Electronic Series EE bonds:** Electronic Series EE bonds are purchased at face value, in exact amounts of $25 or more, via the U.S. government's TreasuryDirect website.

  - **Series I bonds:** Series I savings bond strive to provide some protection against inflation. They have a return composed of a (1) fixed-interest rate and (2) an inflation-adjusted rate.

[1] The prospectus contains valuable information concerning how an investment works, its goals and risks, and any charges or expenses involved. The prospectus is intended to provide an investor with the facts necessary to make an informed investment decision.

- **Paper Series I bonds:** Like paper Series EE bonds, effective January 1, 2012, new paper Series I bonds were no longer available over-the-counter at banks and other financial institutions. Up to $5,000 in paper Series I bonds per year may still be purchased via TreasuryDirect, but only if paid for with an IRS tax refund. Paper I bonds are issued at face value, in six denominations, $50, $100, $200, $500, and $1,000.

- **Electronic Series I bonds:** Electronic Series I bonds are purchased at face value, in exact amounts of $25 or more, via the TreasuryDirect website.

- **Purchase limits:** Specific limits apply to the dollar amount of the various types of savings bonds that may be purchased by a single individual or entity in one calendar year. Savings bonds purchased as gifts are not included in these annual limits.
  - Electronic EE bonds: $10,000.
  - Paper I bonds: $5,000 (only with IRS tax refund).
  - Electronic I bonds: $10,000.

- **Series HH bonds:** Series HH bonds were issued at face value, in $500, $1,000, $5,000, and $10,000 denominations, and pay interest every six months. August 2004 was the last month that the U.S. Treasury issued new HH bonds. Before that date, investors could acquire HH bonds by exchanging matured EE/E bonds, or by reinvesting matured series HH/H bonds.

- **Asset management accounts:** Asset management accounts, available through banks, brokerages and insurance companies, combine a number of different financial tools in one package. Such accounts typically include a brokerage account, bank checking account, and a money market mutual fund. The linked accounts enable excess cash to be automatically swept into the money market fund. Other features such as a credit or debit card, or personal line of credit, may also be included. A consolidated monthly statement covers all accounts.

The various elements of an asset management account may or may not be protected by federal deposit insurance. For example, funds kept in a bank checking account are usually protected by federal deposit insurance. Dollar amounts kept in a money market fund, however, are not protected by government deposit insurance.