

MANAGING YOUR CASH

CASH MANAGEMENT

Cash management is the daily routine of handling money to take care of an individual's or family's needs by keeping enough available for living expenses, emergencies, savings, and investing while maximizing interest earnings. A **cash management tool** is a financial account used to assist with daily cash management. Cash management can be performed through different types of cash management tools and cash on hand. A person must effectively manage these monetary assets.



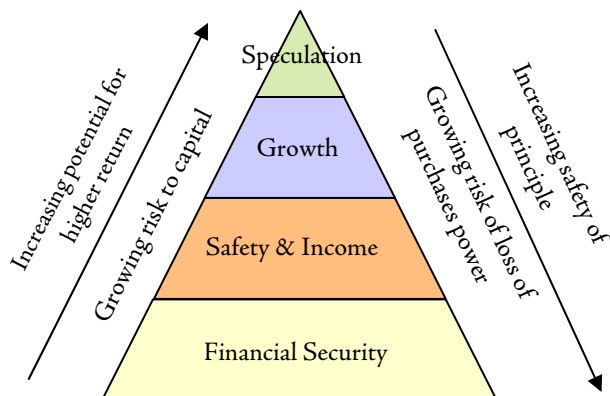
LIQUIDITY

Liquidity is how quickly and easily an asset can be converted into cash. If an individual were to have an emergency, cash needs to be easily accessible. Wise financial managers place money in both liquid and non-liquid tools to be able to cover everyday needs and to still earn interest. Diverse tools are available to fit different needs. Five types of cash management tools (or savings tools) include checking accounts, savings accounts, money market deposit accounts, certificates of deposit, and savings bonds.

CASH MANAGEMENT TOOLS

Checking Account	Most Liquid
Savings Account	
Money Market Deposit Account	
Certificate of Deposit	
Savings Bond	Least Liquid

FINANCIAL RISK PYRAMID



RISK

Cash management tools are on the first level of the financial risk pyramid. The **financial risk pyramid** illustrates the trade-offs between risk and return for a number of investments. This means they are safe, low-risk investments. The five cash management tools listed above are safe because they are protected by the U.S. Government against loss. However, the trade off is lower interest rates. Long-term investments need to be in a tool which has an interest rate at or above the rate of **inflation** (steady rise in the general level of prices) in order not to lose money on the investment.



MANAGING YOUR CASH

CHECKING ACCOUNT

Checking accounts could also be named transaction accounts because it is a tool used to transfer funds deposited into the account to make a cash purchase. The funds are easily accessed through a check, an automated teller machine (ATMs), a debit card, telephone, or internet. They are available at depository institutions (traditionally called banks). It reduces the need to carry large amounts of cash. Checking accounts are the most liquid because the money is considered as cash. Many different types of checking

accounts are available and the requirements for each one are different. They may be either non-interest or interest earning, require a minimum balance, charge transactions fees, or limit on the number of checks written each month. If they are interest earning, the interest rate is usually the lowest

of all the cash management tools. Many of the checking accounts available for students are free which means there are no minimum balance requirements and unlimited check writing is allowed.



Before opening a checking account, learn all of the requirements and restrictions.

SAVINGS ACCOUNT

Savings accounts hold money not spent on consumption. It allows for frequent deposits or withdrawals of funds, is easily accessible, and can be used as a place to store money for emergencies or to temporarily hold money not needed for daily living expenses. They are available at depository institutions. Savings accounts are more liquid than everything except checking accounts because a person can easily get money out of a savings account in a few minutes. They are accessible through ATMs, telephone, or internet. They are interest-bearing, but have lower interest rates compared to other cash management tools except checking accounts. Requirements of a savings account will vary depending upon the financial institution, but some may require a minimum balance or have a limited number of allowed withdrawals each month. Before opening a savings account, be aware of all requirements and restrictions.



MONEY MARKET DEPOSIT ACCOUNT

Money market deposit accounts are a government insured account offered at most depository institutions. These accounts have a minimum balance requirement with tiered interest rates. **Tiered interest rates** mean the amount of interest earned depends on the account balance. For example, a balance of \$10,000 will earn a higher interest rate than a balance of \$2,500. Accounts are limited to a certain number of transactions each month. Customers usually have to deposit a minimum amount to open the account (\$1,000). Money market deposit accounts have a higher average rate of return than savings accounts.



CERTIFICATE OF DEPOSIT

Certificates of deposit (CDs) are insured interest earning savings instruments with restricted access to the funds. They are offered by depository institutions accepting deposits for a certain length of time. The deposits range from \$100 to \$100,000. The time length of the CD usually ranges from seven days to eight years. If the funds are withdrawn before the expiration date, penalties are assessed. CDs are simple with no risks and no fees. The interest rate of the CD will vary depending upon the specified time length. The longer the length of the CD, the higher the interest rate will be.



Family Economics & Financial Education

SAVINGS BOND

U.S. Savings Bonds are for conservative, low-risk savers who like government secured savings instruments. A **savings bond** is a discount bond purchased for 50% of the face value from the U.S. Government. Bonds are affordable and safe because they are backed by the U.S. government.

Different types of savings bonds are available. They can be purchased for \$25.00 - \$10,000.00. For a \$100.00 bond, a person would invest \$50.00. The bond can be redeemed when the investment doubles to reach \$100.00. Any interest earned is exempt from being taxed until the bond is redeemed. If the bond is

used to pay for college, it is tax exempt when redeemed.



CASH MANAGEMENT TOOLS

Tool	Average Interest Earned	Purchase Place	Special Features
Checking Account	1.5%	Commercial Banks, Savings and Loan Associations, Credit Union	Can be used in place of cash, funds can be easily accessed
Savings Account	2.3%	Commercial Banks, Savings and Loan Associations, Credit Union	Easily accessed, temporary holding place for funds
Money Market Deposit Account	2.6%	Commercial Banks, Savings and Loan Associations, Credit Union	Minimum balance, limited transactions, tiered interest rates
Certificate of Deposit	4.0% - 5.4%, depending on the length of deposit	Commercial Banks, other institutions which accept deposits for a fixed period	Penalties for early withdrawals, no deposits or withdrawals are made after initial investment
Savings Bond	4.0% - 5.4%, depending on the length of bond	Commercial Banks, Credit Unions, employer payroll deduction plans	Tax advantages, a loan to the federal government



If a person saved a dollar each day, they would save \$365.00 in one year!

If the \$365.00 was deposited into a certificate of deposit earning 5.0%, the money would grow into nearly \$400.00 in one year!

