Different Types of Savings

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Earning enough money to live comfortably means more than just making enough money for today; you need to save for the future, too. There are a variety of savings accounts to help your money grow while it waits to be spent.

1 Retirement Savings

You shouldn't depend entirely on your government Social Security benefits to fund your retirement. Your employer may offer tax-advantaged retirement savings accounts such as 401(k)s[1] and individual retirement accounts (IRAs).[2] There can be risks with saving money in these accounts since they invest your money in various funds, but long-term, they average a yield return of 5% to 8%. Most employers pay the account fees and match a percentage of your contributions, so you should always contribute at least as much as your employer will match. There are both pre- and post-tax options, but the pretax option is the most common. The difference in your take-home pay after contributing pretax to your retirement account is typically negligible so there's no excuse not to save.

If your employer does not offer a 401(k) or IRA, you can open an IRA at a bank to help you save for retirement on your own. There are still tax benefits to saving for retirement in this type of account, but your employer won't be contributing to it or paying any account maintenance fees if it's not offered through them.

2 Health Savings

Even if you have health insurance, medical expenses can be costly. If your employer offers health insurance, they may also offer a flexible spending account (FSA)[3] or health savings account (HSA)[4] to help you save and pay for these expenses. You may only be eligible for one or the other depending on the type of health insurance you carry, but the money you contribute is not taxed so they will help you save more quickly.

3 College Savings

If you need to save for future college costs, there are a few types of accounts that will help you grow your money. Custodial accounts, Coverdell Education Savings Accounts, and 529 plans are tax-advantaged accounts that will help your college savings grow.[5] Each has different benefits and requirements.

4 Nonspecific Savings

Most banks and credit unions offer both checking and standard savings accounts, but these yield very low interest earnings. Alternatively, there are various types of money market accounts, certificates of deposit, and high-yield savings accounts that offer higher interest earnings. These earnings are taxable, but the interest you earn will still help you grow your savings more than if you saved money in a checking, or even a standard savings, account. Different accounts have varying withdrawal limits and fees.

References

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