3-2: Open a Savings Account

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Cast List
• Darryl
• Terri
• Millie Dunn, consumer financial expert with Lifetime Savings and Loan; 60-65, motherly Caucasian woman
Synopsis
• Terri explains that Darryl is a failed saver who had kept his checking and savings accounts at the same bank (in studio)
• They go to a branch of Lifetime Savings and Loan to meet with Mrs. Dunn, who explains various types of savings accounts
Location
• Studio
• A branch of Lifetime Savings and Loan
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A. Savings account – definition
a. A type of deposit account
i. Federally insured by FDIC or NCUA
b. Bank pays you interest for use of your money
B. About Interest
a. How calculated
b. Compounding defined
i. Example – annual compounding – $1,000 @ 5% compounded annually
ii. Example – compounded daily
iii. The longer money stays in and the more often it is compounded the more it will grow
c. APY – definition
d. Using APY to compare accounts
e. Interest is income and taxable
C. Types of Savings Accounts
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i. Easy access
ii. Withdrawals and deposits
iii. Transfer to checking
iv. ATM access, online, telephone
v. Monthly or quarterly statement
vi. Limit to withdrawals
vii. Linkage covers overdrafts if you have enough
b. Money market account
i. Higher rate of interest
ii. Higher minimum to earn that interest
iii. Fee if fall below minimum balance
c. Certificate of Deposit or CD
i. Set period of initial deposit
ii. Longer left in, higher interest
iii. Penalty for early withdrawal
iv. No deposits, like a savings bond
d. Special accounts
i. Individual Development Account (IDA)
ii. Electronic Transfer Account (ETA)
iii. 529 College Savings Plan
iv. Club account
1. Does not offer interest
2. Save money for special purpose – holiday, vacation, college
3. Requires regular deposits
4. Denied access until specified date
D. How to Open a Savings Account
a. Two forms of ID
i. For non-US citizens
b. Application form
i. Account verification
ii. History
iii. Validation/legal ability to open account
iv. if you have no history
c. First deposit
d. Links to checking account
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Theme music up

TERRI: Good morning! Welcome to today's "Money Smart Podcast Network, with Terri and Darryl" – where we'll be covering choosing the savings account that's right for you. Our audience members may recall that Darryl has not had a lot of luck saving money… every month he sets aside part of his paycheck for savings, and almost every month he spends it all.

DARRYL: But I keep trying.

TERRI: That he does. So, Darryl has his checking and savings accounts with the same bank. The issue for *him* is that he has them linked so he can easily transfer money between checking and savings accounts.

DARRYL: It's convenient that way.

TERRI: Convenient for raiding your savings account. Look, this works wonderfully for lots of people. But not all. And not Darryl. Every time he wanted to spend a little extra, he just transferred it from savings.

DARRYL: See? That's convenient.

TERRI: Today we're going to the local branch of Lifetime Savings and Loan, to talk to their consumer financial expert, Mrs. Millie Dunn, and get Darryl started on the right path. We'll rejoin you at the bank…

SFX: bank interior; sounds of people talking and conducting business in the background

DARRYL: This isn't nearly as convenient as my other bank… My bank has an ATM right on the corner – I'll have to drive two miles to the closest branch of this one.

TERRI: Darryl, every time you want a pizza or a new electronic toy, you head straight to the ATM. If you have time to think before you withdraw cash from savings, it might just help you curb your spending.

SFX: sound of Mrs. Dunn walking up

TERRI: Here's Mrs. Dunn. Good morning!

MRS. DUNN: Good morning! I'm so happy to see you two. I understand Darryl is going to become a role model for savings.

TERRI: He is, however reluctantly. *(to Darryl)* Darryl, this is Mrs. Millie Dunn.

MRS. DUNN: How do you do?

TERRI: Mrs. Dunn was my first grade teacher!

DARRYL: Wow!

TERRI: She made such a big impression on me!

DARRYL: How nice! *(to Mrs. Dunn)* I'm sure Terri made a big impression on you, too, Mrs. Dunn.

MRS. DUNN: Oh, my. Yes. You know, her class was my very last as a teacher. I came to work here at the bank shortly thereafter.

DARRYL: *(joking)* I guess Terri's class was *so* difficult, it drove you out of teaching, right?!

MRS. DUNN: *(serious)* Yes. That's exactly what happened.

TERRI: Wait – what?

MRS. DUNN: So, let me give you a little background information on savings accounts – the benefits, what to look for, that sort of thing.

DARRYL: Oh, I'd like to hear lots of background, Mrs. Dunn!

TERRI: *(whispering)* Watch yourself, Darryl!

MRS. DUNN: My pleasure! With a savings account, a consumer such as yourself deposits money with a bank or credit union, which then pays you a sum of money – called "interest" – as payment for the use of your money. It's a very safe way to save. The FDIC—

DARRYL: Oh, Oh OH!

MRS. DUNN: Darryl?

DARRYL: —that's the Federal Deposit Insurance Corporation.

MRS. DUNN: Excellent, yes! It's safe because the FDIC insures each savings account, for up to $250,000. And the National Credit Union Administration has a similar program for insuring savings accounts at credit unions.

DARRYL: I've never managed to accumulate much interest…. How does it work if I actually leave my money in this time?

MRS. DUNN: *(laughing)* Well, the interest you get is a percentage of the amount of money in your account. So, as an example, let's say the bank will pay you one percent interest on a savings account balance of 1,000 dollars.

DARRYL: Ok.

MRS. DUNN: Most savings accounts compound the interest on your balance. So, the rate at which your money will grow not only depends on what the interest rate is, but also how often that interest is compounded.

TERRI: Mrs. Dunn, would you mind explaining compounding?

MRS. DUNN: I was just getting there!

DARRYL: *(to Terri)* Mrs. Dunn was just getting there, Terri. *(to Mrs. Dunn)* Please continue, Mrs. Dunn.

MRS. DUNN: Of course, dear! If your savings account with 1,000 dollars in it compounded your interest annually, it would add the interest to your account just once, at the end of the year. So in our example, where interest on the account is one percent, after one year you'd have 1,050 dollars. That's the 1,000 dollars plus one percent of that, which is 50 dollars. For a total of 1,050 dollars.

DARRYL: Pizza money!

TERRI: *(to Darryl)* Would you really spend over 1,000 dollars on *pizza*?

DARRYL: You'd spend it on shoes.

TERRI: *(quickly)* Mrs. Dunn, please continue.

MRS. DUNN: Fortunately, most banks compound daily or monthly – not annually. So interest adds up faster. If you deposit that 1,000 dollars in an account with 1 percent interest that has daily compounding, at the end of the first day you would have 1,000 dollars and 14 cents. The next day, the interest would be calculated not on 1,000 dollars, but based on that new amount of 1,000 dollars and 14 cents. And so on.

DARRYL: And after a year?

MRS. DUNN: After a year, you'd have 1,051 dollars and 27 cents. It doesn't look like much now, but over time, and as you continue to add to savings, it really can add up. That's why you need to look not just at interest rates, but also at how often interested is compounded.

DARRYL: That makes sense.

TERRI: Isn't it important for consumers to know about APY?

DARRYL: APY?

MRS. DUNN: I'm so glad you asked about APY, Darryl! The best way to compare different savings products is to compare their Annual Percentage Yield or APY. The Annual Percentage Yield gives you a total for how much interest you'll earn over the course of one year, including the effects of compounding. It's expressed as a percentage.

DARRYL: And how do I use these APY numbers?

MRS. DUNN: Well, when you look at savings account options, always compare the APYs, not the overall interest rates.

TERRI: Both banks and credit unions are required to provide APYs, right?

MRS. DUNN: Of course!

DARRYL: Of course, Terri!

MRS. DUNN: All banks and credit unions are required by a law called the Truth in Savings Act to provide what are known as "disclosure statements."

DARRYL: Disclosure statements?

MRS. DUNN: A disclosure statement is a written document that provides the APY and other important information you should know about any savings account you are considering.

TERRI: So, what options does Darryl have for a savings account?

MRS. DUNN: There are a number of options. The most common account is a statement savings account. It gives you easy access to your money.

DARRYL: Uh oh.

MRS. DUNN: You can make withdrawals and deposits like you do with your checking account. You can also transfer money between your checking and savings accounts with this option. You can even use your savings to provide overdraft protection for your checking account.

DARRYL: I know that only too well…

(laughter)

MRS. DUNN: You can access your account through the ATM or use online or phone banking. You'll receive a monthly or quarterly statement – paper or online – that lists all your transactions, including fees and interest earned.

DARRYL: Interest earned. Nice.

TERRI: Darryl, you need to have money in your savings account to earn interest on it.

MRS. DUNN: Like many banks, we do limit the number of times you can withdraw money from your savings account to three times a month.

TERRI: That's a good start to becoming more disciplined!

MRS. DUNN: Another way to save is with a Certificate of Deposit or CD.

DARRYL: How does that one work?

MRS. DUNN: You put in a certain amount of money, leaving it for a set period of time – six months, a year, or up to five years. The longer the term of the CD, the higher interest rate you earn. But there is a penalty for withdrawing your money before the term is over.

DARRYL: So if I withdraw money from a six-month CD after four months, I pay a penalty?

MRS. DUNN: Yes.

DARRYL: How does it work if I want to add money to the CD?

MRS. DUNN: You could buy another CD, but not add to an existing one. It's a little like a savings bond – you put your money into it, and then wait until it matures.

TERRI: He's not so good when it comes to maturity.

DARRYL: Hmm… I'm hoping to sell a few things online, and maybe bring in $1,000 by next month. I'm starting to think a CD might be a smart way to hold on to that cash.

TERRI: But aren't you trying to save up for your class reunion next summer?

DARRYL: Go Bears! Yeah, I need to get *serious* about that.

TERRI: Uh huh.

DARRYL: So, am I back to trying to behave myself with a regular savings account?

MRS. DUNN: There are a few other specialized savings programs that might be available in your community. Ask our bank if it can refer you to any of these programs in the area. One is the Individual Development Account or IDA.

DARRYL: How does that one work?

MRS. DUNN: A local non-profit partners with a bank or credit union to offer IDAs to people with low or moderate incomes, for lifelong investments such as job training, education, home ownership, or to fund a business. The IDA program provides a dollar for dollar match for everything saved. The individual must complete financial education classes, and can withdraw and use the money only for approved purposes.

DARRYL: I don't suppose pizza is an approved purpose.

MRS. DUNN: *(somewhat offended)* I should think not!

TERRI: Yeah, Darryl. I should think not. *(to Mrs. Dunn)* Mrs. Dunn, I'm so sorry. Please continue. For those in our audience who've never opened a savings account, what should they bring with them if they go in person to a branch to open an account?

MRS. DUNN: Well, anyone opening an account in person would need to prove their identity. They would have to show a photo ID. This could be a driver's license, or state-issued identification card, or passport. Banks may also ask for proof of address, which can be your driver's license, a phone bill, or a utility bill. They will need your social security number or individual taxpayer ID number. Other requirements can vary with the bank, but you'll typically complete an application and make an initial deposit.

TERRI: Do non-U.S. citizens need anything different to open an account?

MRS. DUNN: No. However, they must apply in person.

TERRI: Well, Mrs. Dunn. This was very helpful. Darryl, do you have any more questions?

DARRYL: *(clearly a little afraid)* No.

MRS. DUNN: No what?

DARRYL: No ma'am!

TERRI: Thank you, Mrs. Dunn.

MRS. DUNN: You're most welcome.

SFX: sound of Mrs. Dunn walking away

DARRYL: *(whispering, to Terri)* Let's get out of here!

Cross-fade SFX with theme music

TERRI: Well, this has been the "Money Smart Podcast Network, with Terri and Darryl."

DARRYL: *(weakly)* Go Bears.

Music fades