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High-yield savings account vs. traditional savings account: Which one is better?

Savings accounts are a great entry point to practice responsible saving, whether it's for an emergency or another upcoming savings goal.





Not everyone feels comfortable putting all their money into the stock market. Many folks aren't interested in high-risk, high-reward strategies and want lower-risk options. That's where savings accounts come in.

Savings accounts are bank accounts that earn interest, encouraging saving, not spending. They're primarily used as an account to transfer money into, unlike a checking account, which is typically the account you use to make purchases or set up bill pay with short-term cash — money you'll spend soon.

But not every savings account is created or managed the same way. Here's a breakdown of high-yield savings accounts and traditional savings accounts to help you decide which is best for you.

What can you earn with a traditional savings account vs. a high-yield savings account?

A traditional savings account is a bank account that earns a small amount of interest on the money in the account. Offered at banks or credit unions, these accounts are usually tied to other product offers, like checking accounts or investment opportunities.

A high-yield savings account (HYSA) is usually offered at an online financial institution that isn't tied to a traditional bank or credit union. The biggest difference is the interest rate, or yield, usually called an annual percentage yield (APY). This is the interest you earn on your savings over a year.

A traditional savings account earns anywhere from 0.01% to 0.35% on the money in your account. But a high-yield savings account earns much more than that. Right

now, many HYSAs are earning APYs of around 3% to 4% and, in some cases, even more.

Both HYSAs and traditional savings accounts are insured by the Federal Deposit Insurance Corporation (FDIC) and, for accounts opened at credit unions, the National Credit Union Administration (NCUA). These two independent US government agencies insure up to \$250,000 of your money if your financial institution fails.

A promotional banner for Yahoo Finance. On the left, there is a purple-tinted illustration of financial concepts: a smartphone displaying a bar chart, a calculator, a pie chart, and two stylized figures in business attire. On the right, the text reads "yahoo!finance" in purple, followed by "MAXIMIZE YOUR SAVINGS" in large purple letters, "COMPARE HIGH-YIELD SAVINGS ACCOUNTS" in large green letters, and a green button with the word "COMPARE" in white.

Find the best HYSA rates

Traditional vs. high-yield: The basics

The major difference between traditional and high-yield savings accounts is how much you earn from them and where they're available.

Opening an account

Traditional savings account: You may be able to open a traditional savings account at your financial institution. Alternatively, you can usually open a traditional savings account at a local bank or credit union. Many offer the option to open an account online without visiting a branch, but that can vary by institution.

High-yield savings account: Many online banks offer high-yield savings accounts — you can open and manage your account completely online or with an app.

Required minimum balance

Every institution is different when it comes to minimum balance requirements. Some don't have any minimum balance requirements while others charge a set amount to open your account. Others have a minimum balance requirement you'll need to keep so your account stays active. These amounts also vary by institution.

Fees

Bank fees also vary by where you open an account. Regardless of the type of account you open, look for offers that charge the fewest fees, including monthly maintenance and overdraft fees.

Restrictions

Savings accounts traditionally limited your withdrawals to six per month, but that restriction was indefinitely suspended in 2020 thanks to the Federal Reserve. Keep in mind that some institutions still have this restriction in place, so if you want the freedom of unlimited withdrawals or transactions, you may want to look for high-yield savings accounts with that option.

Pros and cons of savings accounts

Both high-yield and traditional savings accounts come with some decent upsides when compared to other investment options. But they also come with some disadvantages.

Pros

- **Guaranteed earnings:** Whether it's high or low, an APY means you're only going to earn money with a savings account and never lose it, as long as the account is federally insured.
- **Good for short- and long-term goals:** Savings accounts are easily accessible, and even if there's a limit on how many times you can withdraw money each month, you can still tap into your savings when you need it.

- **Potential sign-on bonuses:** Some institutions may offer a higher APY for new customers. While this introductory APY may end after a certain amount of time, it gives you a chance to maximize savings early on.

Cons

- **Less return compared to other investment options:** The average return on the S&P 500 index — a stock index that tracks the market performance of the 500 largest publicly traded companies in the US — is 10%. This is more than double the highest yield on high-yield savings accounts. If you want to earn more with your money, you may want to consider alternatives to savings accounts.
- **Potential fees:** Every financial institution charges different fees at different times. You might be charged if you overdraw your account or don't meet a monthly minimum balance requirement. These fees can eat into your overall savings.
- **Some account restrictions apply:** Some institutions have a minimum opening account requirement or a monthly balance minimum. Other high-yield savings accounts only offer the highest yield to those who deposit the most or have other features that affect your returns. Read the fine print to ensure you know what you're signing up for before opening a savings account.

Traditional savings accounts vs. high-yield savings accounts: Which one should you get?

If you're on the fence about a traditional or high-yield savings account, there are a few ways to tell which one is right for you.

Consider a high-yield savings account if:

- **You want to maximize savings returns.** If you're trying to avoid investing in the stock market and need a place to earn something on your savings, a high-yield savings account is one of your safest options. It's a savings account, so you'll never lose money.
- **You have short-term savings goals.** Some savers might want a certificate of

deposit (CD), but that keeps you from accessing your money whenever you want. A savings account is a good option if you're saving up for something this year or next.

- **You need an emergency fund.** An emergency fund is there when you need it, so it's important to have your money work for you while you save. The more you can earn on your savings, the more cash you'll have if an unexpected expense arises.
- **The institution isn't a priority.** Many traditional banks and credit unions don't offer high-interest savings accounts, and you may have to use an online bank to open one. If you don't mind opening up a savings account with a different financial institution than where you have your existing accounts, a high-yield savings account can be a good option.

Consider a traditional savings account if:

- **Yield isn't a priority.** If you don't mind earning less money compared to other savings opportunities, you may want to open a traditional savings account.
- **You want to stay at your bank.** If you don't want to open a new bank account at a new financial institution, avoid the hassle and open a traditional savings account at your current bank. This way you can set up easy automatic contributions to your savings account from your checking account that will show up instantaneously.
- **You want an in-person experience.** Most high-yield savings accounts are only available at online banking institutions. If you prefer going into a physical branch, your options might be limited to only a traditional savings account.

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You probably rely on your checking account's debit or ATM card to access cash and make payments. But what about your high-yield savings account? Do HYSAs offer cards?

5 smart ways to use a year-end bonus

Are you getting a holiday or year-end bonus? Here are five ways you can use that money to improve your financial situation in 2025.

Are HYSAs less favorable when interest rates are low?

With deposit interest rates falling, you may be wondering if your high-yield savings account (HYSA) is still worth it. Here's what to know.

This week on Reddit: Where should I put my money when HYSA rates are falling?

HYSA rates are falling, so where is the best place to put your savings? We examine a recent Reddit thread on this topic and detail your best options.

This week on Reddit: Should you open a PayPal Savings account?

Is the PayPal Savings account worth it? We examined a recent Reddit thread about the PayPal Savings account and how it compares to other high-yield savings accounts on the market.



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