Pros and Cons of Saving

SAFA Financial Literacy Lesson

What is saving?(Quick Review)

Saving is not using some of your income and keeping it for future expenses/goals, rather than immediate expenses. Common things that people save for are for a vacation, their children's education, an emergency fund, and retirement.

Advantage: Being Ready for Emergencies

Life is very unpredictable, and you never know when you will be hit with a sudden loss due to an emergency. By saving and developing an emergency fund, you will be ready for anything that life throws at you, making you more financially secure.

Advantage: Safety

Compared to investments, it is far safer to save. This is because of the Federal Deposit Insurance Corporation’s actions(FDIC). The FDIC protects those who deposit money into bank accounts even when the bank fails(if it is FDIC-insured), ensuring that you do not loss that money, with the deposit insurance going to $250,000 per depositor.

Advantage: Accessibility

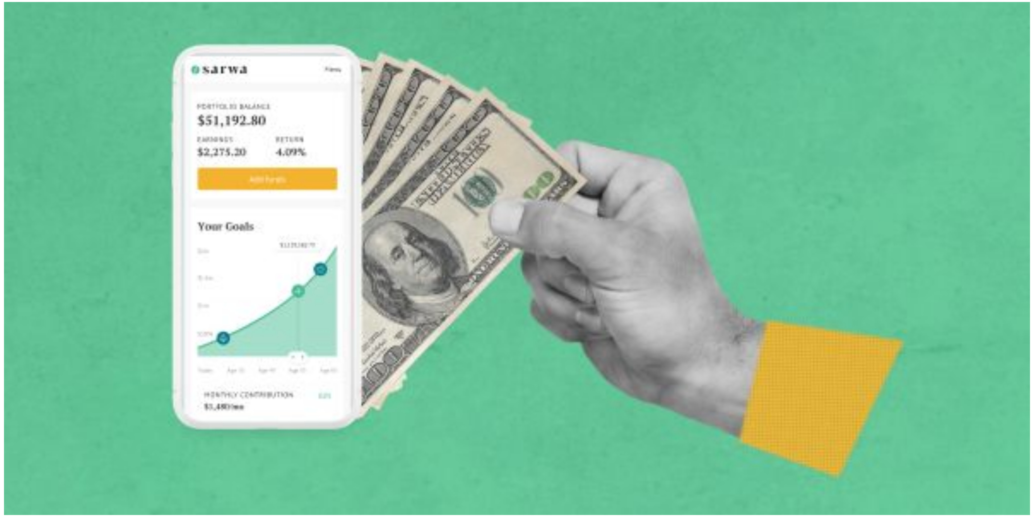
Unlike investments, it is far easier to extract money online or from savings accounts with ATMs(Automated Teller Machines). Also, you are not locked in to the savings account for any period of time. This contrasts with investments, as you may be forced to wait until withdrawing your money, and it is far more complicated to withdraw money from investments.

Downside: Requirement for a Minimum Balance

Most savings accounts require a certain amount of money to be deposited, or they require monthly maintenance fees. If there is less than the minimum balance, the bank will counteract the interest you earned by removing fees from your account.

Downside: Limits on Taking Out Money

There are federal limits for how many times you can withdraw funds. The limit is 6 times per month, and if you go above the limit, a fee will be charged, and if you continue to withdraw above the limit, your savings account will be converted into a checking account.



Downside: Interest

Compared to investment, saving has far less interest, meaning that your money will not increase in as much value. This is detrimental as inflation leads to money becoming less valuable over time, so over time, your savings will decrease in value. This is why it is important to also invest.