TRENDLINES

It’s a good time to jump on those 5 percent savings rates

Here are some popular, and straightforward, interest-bearing options for getting more bang from your bucks

By **Larry Edelman** Globe Columnist, Updated April 14, 2023

Yields of 4 to 5 percent on cash are easy to find now. MARK LENNIHAN/ASSOCIATED PRESS

This column is from Trendlines, my new business newsletter that covers the forces shaping the economy in Boston and beyond. If you’d like to receive it via e-mail on Mondays and Fridays, sign up here.

You've probably seen a lot of ads recently for bank certificates of deposit yielding 4 to 5 percent. Or maybe a friend mentioned parking some cash in a money market mutual fund offering a similar return.

Yields on cash, which sat near zero following the 2008 financial crisis, have been climbing steadily since March 2022 — perhaps the only silver lining of the Federal Reserve's campaign to cool inflation by boosting interest rates.

And the lure of lofty rates, combined with peace of mind, is pulling a flood of money into high-yield savings accounts, CDs, and money market funds. US Treasury bills and Series I savings bonds are also being snapped up by folks eager to lock in unusually fat yields.

"It's a great environment for savers," said Jill Fopiano, chief executive of O'Brien Wealth Partners in Waltham. "Yes, it's also a period of high inflation, which tends to erode those returns, but you are preserving capital" with elevated interest earnings.

Many forecasters think that after one more rate hike next month, the Fed will pause and could start to reverse course by the end of the year or early 2024. That would reduce cash yields.

So, if you'd like to get more bang from bucks you don't want to tie up for years, now's the time to act. Here are some popular, and straightforward, interest-bearing options recommended by Fopiano and other experts.

High-yield savings accounts

Two years ago I moved extra cash into an online-only savings account from Marcus paying 0.5 percent from a Bank of America checking account paying exactly nothing.

The decision was a no-brainer, even for a mere half-point of interest. I don’t mind that the online bank has no branches and doesn’t offer checking, and that I have to use my old checking account to move money in and out of the online bank.

Meanwhile, my Marcus account is FDIC insured and has no minimum deposit or balance, and doesn’t charge transaction fees. (Some other banks do require minimums and may charge for transactions.)

I am now earning 3.75 percent, and there are online deals out there for up to 5 percent.

CDs

Just this week I got an e-mail from Marcus offering a 10-month CD yielding 5.05 percent annually. That seems hard to ignore. With inflation running at 5 percent, at least I could come close to breaking even.

Like high-yield savings accounts, CDs are covered by the FDIC up to $250,000 per person per bank. But you can’t touch your CD deposit until it matures — anywhere from three months to five years depending on which one you pick. You’ll most likely pay a penalty to take your money out early.

Money market mutual funds

As I explained last month, money market mutual funds have been sucking up cash like a Dyson vacuum. That's because they offer yields comparable to CDs but with the freedom to deposit or withdraw money daily.

Money market funds are considered quite safe because the assets they hold are liquid and largely backed by the US government. But the funds aren't federally insured — they are an investment, not a bank account — and in a few cases investors have lost some of their principal.

Average money market annualized yields reached 4.6 percent this week, according to the Crane 100 Money Fund Index, up from an average of 1.45 percent throughout 2022.

Treasury bills and notes

Of course, you always have the option of parking your cash with the US Treasury.

Treasury bills come in maturities of one year or less. A recent four-week bill yields about 4 percent, while a one-year bill brings 4.6 percent.

Treasury note maturities run from two years, with a yield of nearly 4 percent based on Thursday's price, to 10 years, at 3.5 percent. The most common Treasury bond has a 30-year maturity and is yielding 3.7 percent.

You may have heard some people raving about the Treasury's Series I savings bonds, which combine a fixed rate and variable rate that is pegged to the consumer price index to provide some protection from inflation.

Last May, the Treasury set the I bond rate at 9.6 percent, an eye-popping payout for an investment guaranteed by the government. But the rate dropped to 6.9 percent in November as inflation eased, and is expected to fall again when it is set next month.

A couple of caveats: Online purchases of I bonds are limited to $10,000 in each calendar year; federal tax refunds can be used to buy another $5,000 of paper I bonds. And while I bonds can be cashed in after 12 months, any redemptions made in less than five years will cost you the last three months of interest.

A final thought

Eventually the Fed will cut lending rates, and when it does, banks and money market funds will drop their rates even faster than they increased them.

“Don’t expect rates to go up much further,” said Fopiano, the financial adviser. “If you can, it would be good to lock in for two years.”

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