Saving Up

Is My Money Working Hard Enough in a Savings Account?

by Lauren Dado

Jul 29, 2019 | 5 mins | 1.2K views

If you're like most Singaporeans, you probably keep the bulk of your money in a savings account. And why wouldn't you? Banks offer safety and assurance. In fact, research shows that **58% of emerging affluent Singaporeans** prefer to reach their financial goals with savings accounts.

However, playing it too safe can be risky in the long run. If your plans are for a mid- or long-term goal like your children's education or your own retirement, a savings account won't help.

Here's our take on how you can perfect your financial masterpiece, with tips on when your money works well in a bank account and when it could be put to better use elsewhere.

When You Should Consider Other Savings Options

Saving in a bank account isn't the most ideal when you're looking at a longer term horizon. Let's say you keep $30,000 in a savings account for the next 10 years. A 'plain vanilla' savings account only yields around 1.5% interest per annum. That's not good, because inflation will shrink the value of your money over time.

Developed countries like Singapore typically have an **inflation rate of around 2%**. This means $30,000 kept in a 'plain vanilla' savings account will have a real purchasing power of $28,533.30 in 10 years. That's a loss of $1,466.70!

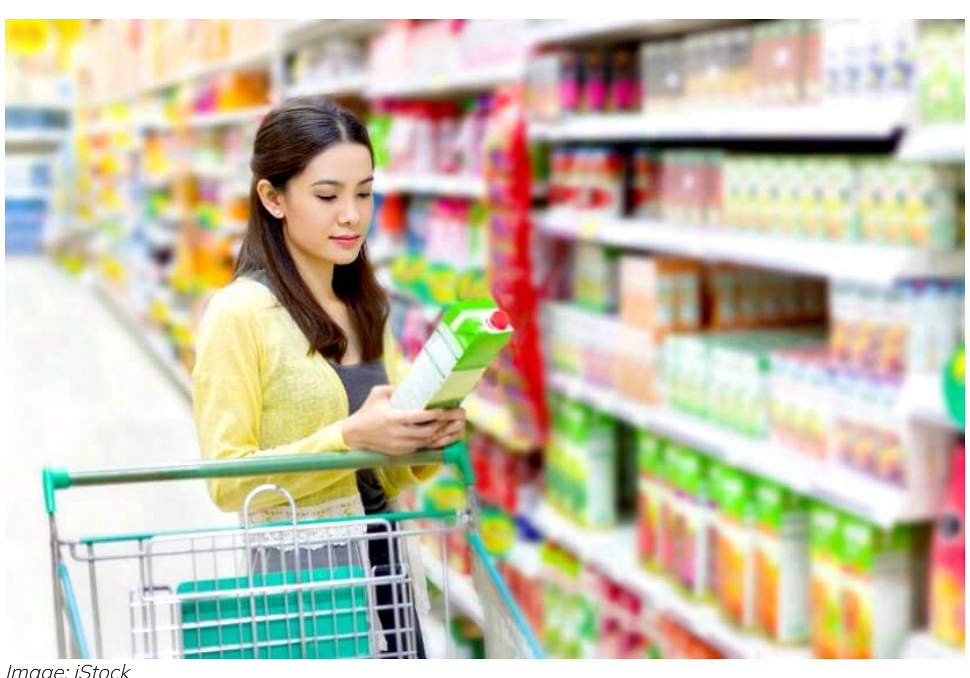


Image: iStock

Fixed deposit accounts are hardly any better, with interest rates ranging from 1.7% to 2% per annum. Although you won't lose to inflation with a 2% interest rate, you're also missing out on the chance to make your money grow.

And sure, today there are savings accounts that are marketed as offering interest rates up to as high as 3% to 4% per annum, but only if you meet certain conditions – like spending above a certain amount on your credit card every month, *and* changing your salary crediting account, and maintaining a minimum account balance… That's a lot of hoops to jump through!

When to Save Money in a Bank Account

Image: iStock

That's not to say you should never stash money in the bank. Keeping cash in a savings account makes sense *if you plan to use it immediately* (i.e. in the next 12 months).

Besides your monthly living expenses, a savings account is a great place to store an emergency fund. In case anything happens, you can access the cash instantly, easily, and without any withdrawal penalties. In this case, a bank's stability also works in your favour; the value of your emergency fund is protected from short-term market fluctuations.

For these reasons, bank accounts are a smart tool for meeting your next life goal, like a holiday overseas or minor home improvements.

What Alternatives Are There To Bank Accounts?

For goals 10 years and beyond, make your cash work harder with higher returns compared to that of typical bank accounts. Here are suggestions on how you can draw your plans to reach your dreams, with better places to park and grow your hard-earned money.

Regular Savings Plans

Just like the name suggests, a regular premium savings plan is an easy way to maintain a savings habit by ensuring you save money on a regular basis (by paying your premiums).

Savings plans are a low-risk wealth accumulation tool that can benefit new or cautious investors. It offers you better returns than that of a typical bank account, and gives some liquidity with access to cash payouts after the 2nd year. You may get a higher payout, depending on the performance of the participating fund of the insurer. Some also come with capital guaranteed at the end of the policy so you get back at least the amount you put in. It's also a safer investment tool to diversify your portfolio's risk and a less risky way of trying your hand at growing your money.

If you're saving toward a mid-term goal, you can consider a savings plan with a policy term ranging from 10-25 years. You have the option to pay for this in a frequency that you're comfortable with, between monthly premiums to yearly premiums (and options in between too).

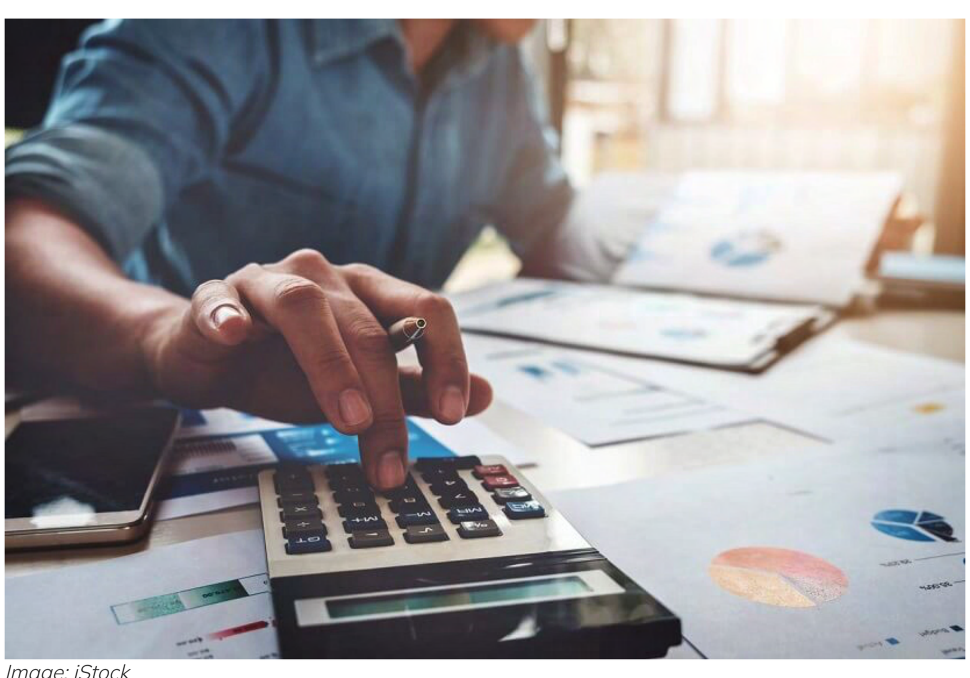


Image: iStock

Retirement Savings Plans

If your goal is to save for your retirement dream, park your money where it can work harder than a savings account. Retirement savings plans are made to bring your sketches to reality, with the added assurance of receiving a regular cash payout when you retire.

With a retirement plan, you pay a fixed amount on a regular basis for a fixed period of time, or via a one-time payment, depending on your financial capabilities. You can even tailor the plan to suit your comfort level, determining your premium terms and when you want to receive your payouts.

While there's no telling how market performance will change over time, a retirement plan offers peace of mind by guaranteeing part of the retirement income payout. No matter how the market performs, you'll still receive this amount when your policy pays out. Like regular savings plans, you also may receive more than the guaranteed return, depending on how well the insurance company's participating funds perform. This is also considered to be a safer tool to diversify your portfolio risk, and ensure your retirement is still in safe hands.

Investment-Linked Plans

Image: iStock

Personal finance involves making your money grow through investments and protecting your family's needs through life insurance. An investment-linked plan (ILP) can easily provide both.

An ILP gives you the freedom to decide what asset classes to invest in, according to your risk profile and expected level of return. When you pay through regular premiums, you enjoy the dollar-cost averaging approach. Over a long period of time, you reap the benefits of staying invested in the market.

An ILP also helps you protect what you cherish the most. Most ILPs provide insurance protection in case of death, disability, or dread disease. Should anything happen to you during the coverage period, your loved ones can be assured to receive the sum assured, the total value of your account, or a combination of both (depending on the product), which ensures one won't be left penniless during this difficult time of loss. ILPs also offer you the flexibility to change the amount you put into protection and wealth accumulation during the policy term, to meet your changing needs.

The Final Word

Image: iStock

Savings accounts still have a place in the creation of your financial masterpiece. They provide an easy way to access cash for emergencies or unexpected expenses. But if you're chasing mid- to long-term financial goals, your money can work harder elsewhere.

Where you choose to keep your money depends on your goals, your needs, and your risk appetite. Start your planning today for a richer tomorrow by **connecting with a financial professional online**.

Important Notes:

*This article is meant purely for informational purposes and should not be relied upon as financial advice. The precise terms, conditions and exclusions of any Income products mentioned are specified in their respective policy contracts. For customised advice to suit your specific needs, **consult an Income insurance advisor**.*

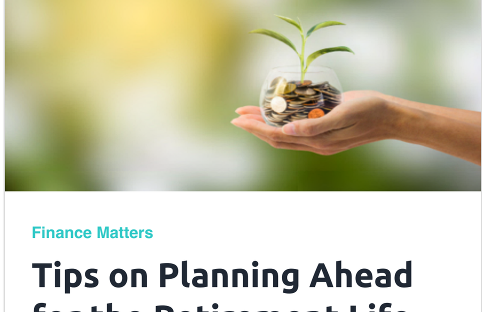
This advertisement has not been reviewed by the Monetary Authority of Singapore.

Tags: Saving Up

Author(s):

Lauren Dado

Related Articles



Finance Matters

Tips on Planning Ahead for the Retirement Life You Want

If you're planning for an early retirement, read on for advice from parents on how you can achieve your retirement goals.

by Income

Nov 11, 2022 | 5 mins | 875 views

Retirement Planning | Saving Up

Finance Matters

Emergency Funds in Singapore: How Much Do You Really Need?

An emergency fund to ensure you're financially prepared for unexpected circumstances in life.

by Lauren Dado

Jun 04, 2021 | 7 mins | 2.2K views

Saving Up

Finance Matters

Why Your 20s is the Best Time to Get an Endowment Plan

Endowment plans in Singapore help grow your savings and bring you closer to your mid- or long-term goals. Find out why your 20s is the best time to stash your cash in an endowment plan.

by Lauren Dado

May 28, 2021 | 7 mins | 1.7K views

Endowment Plans | Saving Up