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Young&Savvy

How to choose the right savings account

Industry observers share tips to help you pick a suitable one

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It has been two sad years of watching my savings languish in my bank account amid low interest rates due to the Covid-19 pandemic.

I have been investing to grow my hard-earned money since I started work several years ago, but I am also aware of the need to build a nest egg to meet financial obligations or unforeseen expenses.

So I was glad to see banks restoring rates on their flagship savings accounts in recent months.

This comes amid the Federal Reserve's series of interest rate hikes to dampen red-hot inflation in the United States. Singapore's interest rates are largely determined by foreign interest rates, especially those in the US, along with foreign exchange market expectations of the Singapore dollar.

This means borrowing has become more costly, but customers also enjoy higher interest on their deposits, including those in savings accounts. The interest rates for savings accounts are generally higher if account holders have a bigger balance or transact in more categories, such as investments and credit cards.

DBS Bank was the first bank to raise rates for savings accounts when it lifted the maximum interest rate on its DBS Multiplier account from 3 per cent to 3.5 per cent a year in August.

The highest rate is 4.05 per cent a year in effective interest for OCBC 360 savings account customers, and 3.6 per cent a year for UOB One account holders. Standard Chartered Bank also raised the maximum interest rate on its Bonus$aver account to 4.88 per cent a year – its highest for the product.

There are also new digital banks with their own value propositions. Trust Bank offers customers up to 1.4 per cent a year on the first $50,000 of their account balance, along with savings on essentials like groceries and food.

When GXS Bank takes off, customers will be able to earn daily interest of 0.08 per cent a year when they deposit up to $5,000 into the savings account, and 1.58 per cent a year when they create a savings pocket for specific purposes such as studies or a holiday.

With so many options out there, I am considering changing the main account my monthly salary is credited to. I have also weighed the steps I can take to earn more interest, for example, by investing through the bank or increasing my card spending.

But I soon realised that the maximum rate on the various accounts is rather elusive, considering how much I need to do to achieve it. It also comes with trade-offs such as higher spending to fulfil certain criteria, which isn't wise given the current climate of inflation and economic uncertainty.

Keeping more money in these accounts also means I have fewer funds to invest, and the investment products associated with the accounts are also limited to certain assets that may not be suited to my needs.

I turned to several industry observers, who shared a few tips that might be helpful if you are also trying to pick a suitable savings account:

1. CONVENIENCE IS KING

Interest rates are attractive, but your main consideration should be ease of access to banking services.

Look at factors such as the availability of ATMs, user-friendliness and the whole ecosystem surrounding the account, such as credit cards, home loans, insurance and multi-currency accounts, says Mr Joel Koh, content strategist at personal finance platform Seedly.

Singapore Management University assistant professor of finance Aurobindo Ghosh says a main savings account needs to be readily available, with limited downtime, reliable apps, and little or no transaction costs.

It also needs to have sufficient fraud detection capabilities and should be interoperable round the clock across multiple platforms such as online and mobile banking, with expense-tracking features, adds Prof Ghosh.

Mr Koh notes that finding the bank with the highest interest rate should be secondary as these rates do not last. "But since interest rates are high now, it would be good to make hay while the sun shines," he says.

2. CONSIDER EXISTING FINANCES

It is not a good idea to go out of your way to fulfil the various criteria on a savings account if you are not already doing so, says Mr Koh. "If you do the maths, you'll often find that the amount you spend fulfilling the additional criteria is not worth the money."

Those aged between 18 and 26 can consider the Standard Chartered JumpStart account, which gives 2 per cent a year on the first $20,000 without any minimum spending or salary-crediting requirement, he notes.

Ms Angela Koo, an editor at personal finance website DollarsAndSense, says customers with a DBS home loan may find it more achievable to earn higher interest rates with the DBS Multiplier account, as the loan already fulfils one of the criteria.

It is also worth noting that the highest advertised interest rate might effectively be only for a fraction of your savings, and not the entire sum, says Prof Ghosh, who is also director of the Citi Foundation-SMU Financial Literacy Programme for Young Adults.

For example, the interest rate of 3.6 per cent on the UOB One account is only for balances between $75,000 and $100,000, provided customers spend at least $500 a month on an eligible UOB card and have their salary credited via Giro. The rate ranges from 1.4 per cent to 2.5 per cent for various tiers of balances below $75,000 when customers fulfil those criteria.

3. READ THE FINE PRINT

Beyond the headline interest rate, you should look at the account's fall-below fee, says Mr Koh. This refers to the fee that banks charge when your minimum average daily balance for the month goes below a certain amount.

It is also a good idea to carefully examine the fine print for fulfilling the account's criteria, he adds. "For example, the insurance product that you purchase might only fulfil the criteria for 12 months. To continue fulfilling that category, you would need to purchase another insurance product after 12 months."

Prof Ghosh points out that even if the explicit minimum balance requirement for an account may be low, there can be minimum spending limits across different products to be eligible for a higher interest bracket.

"These limits might force consumers to take up a product, like additional insurance, that might be more of a want than a need," he adds. "There might also be indirect encouragement to take up more debt, like high-interest credit card debt, to get cashback bonuses. Customers should also be aware of fees and penalties if some of the minimum spending limits are not met."

If you fear losing your money, you should know that the Singapore Deposit Insurance Corporation will pay out up to $75,000 per depositor per institution if the bank or finance company goes under. So you may want to put your money with a few banks in the unlikely event that they collapse, says Mr Koh.

4. WEIGH OPPORTUNITY COSTS

It is hard to keep up with inflation simply by diligently growing your money. Singapore's core inflation, which excludes private transport and accommodation costs and reflects the expenses of households more accurately, hit 5.3 per cent year on year in September.

This is much higher than the interest on savings accounts, which are realistically giving you only 1 per cent to 2 per cent on your money, says Mr Koh. "Despite your bank account balance increasing, your money is, in a sense, losing its value as things are getting more expensive."

This is why you should invest your money after setting aside an emergency fund of at least six months of your expenses instead of leaving it in the bank, says Mr Koh, adding that investing comes with risk but also carries a good chance of beating inflation over the long term.

Ms Koo notes that savings accounts are a way for people to hold their emergency funds and idle cash, and are not a substitute for investing.

"It is even more important in the current inflationary environment to not let our cash idle, but put it towards investments that can beat inflation over the long run," she says.

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