5 Reasons to Invest in a CD

Interest rates on traditional savings accounts have been near record lows for nearly a decade now. That doesn't mean you shouldn't be saving, though. It just means you have to look for an account that gives you the highest rates available along with the access you need to your savings.

If you don't need to use the money for a certain length of time, a certificate of deposit can be a good choice for savings. Here are five reasons to open a CD.

1. Interest rates are higher
Because you agree to give up access to your money for a short while, it generally earns more interest than it would in a basic savings account at the same bank. You can often get a CD with a term of three months to five years or more. The longer the term, the more the bank is generally willing to paying you to use your money.

2. Rate is guaranteed
Although interest rates on savings accounts can vary over time, with CDs, you get a guaranteed, or fixed, interest rate.

3. Low minimum
Many CDs, including those at Durand State Bank in Illinois, only require $500 to invest. For a young person who's just starting to save, the barrier to entry is low.

4. No monthly fee
Some savings accounts require monthly maintenance charges. But with CDs, you usually make one deposit to open the account, and then you don't have to worry about monthly fees as long as you leave the money alone until the CD matures.

5. Money is insured
The Federal Deposit Insurance Corp. insures deposits up to $250,000. Between 2008 and 2012, the FDIC closed 465 banks. Yet because of the insurance, depositors who were within the $250,000 threshold didn't lose money.

A caveat: One drawback of a CD is that you'll have to pay a penalty if you have to withdraw the money early. The early-withdrawal penalty is usually a number of months' worth of interest, depending on the terms. Be sure you understand the penalty before you invest your money.

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