High-Yield Savings Accounts Don’t Earn What They Used to. Here’s Why

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High-yield savings accounts have traditionally been touted as a way to earn a little extra money while saving, but many account holders have noticed the “extra” is pretty skimpy these days.

In 2020, the annual percentage yield (APY) has fallen twice so far. The reason? It has to do with the Federal Reserve.

What Is a High-Yield Savings Account?

A high-yield savings account is usually used as a savings vehicle for a particular goal, not necessarily as a way to grow your money. (That’s what investing is for.)

Since you can access the money at any time and do not have to wait until a maturity date, many people use high-yield savings accounts for emergency funds, saving for down payments on a house or car, or paying for home repairs.

“If you had gotten laid off in February or March and you needed a way to weather the storm until you got rehired again, you would want to have emergency cash in a high-yield savings account,” says Andrew Barnett, a certified financial planner and relationship manager with GFA Wealth Design.

High-yield savings accounts have low or no monthly maintenance fees, and the interest rates they earn are variable and the interest is compounded.

The interest rate is tied to the federal funds rate, which is the rate banks use when they lend money to each other. When that rate goes up, the amount of money you earn in interest increases. The opposite is also true so when the rates fall, you earn less.

Since March 15, 2020, the rate has been 0.00%-0.25%. A year ago, it was at about 2.25%.

Keeping some money safe and with easy access is something Barnett says comes up in most of his meetings with clients, and it’s difficult for them to see their money not growing much at all.

“You can still earn a little bit, but not very much, and it all happened really quickly. In people’s minds, doing something safe meant earning two and a half percent,” he says. And now that safety means earning a lot less.”

Why Does the Federal Funds Rate Go Down?

Low rates are good news for borrowers, bad news for savers.

When rates are lower, people can afford to borrow more, so during an economic downturn, the Fed lowers rates in an attempt to encourage borrowing, which frees up money to spend on other things. For example, if a homeowner refinances at a lower rate, they have more money to spend each month.

"It may not be on luxury goods, it may be on food, but it's keeping the economy running," Barnett explains.

In times of economic prosperity, rates go up.

"You don't want the economy growing too fast because that puts the pressure on prices and causes inflation," Barnett says. "When things are great and everybody has a lot of money to buy new things, it drives prices on all kinds of things up."

So the Fed raises rates to discourage spending.

The rates will go up again — the question is when. In June 2020, the Fed said the rate would stay near 0% through 2022 to help the economy recover from the crisis the coronavirus has caused.

Are High-Yield Savings Accounts Still Worth It?

Even with current low rates on high-yield savings accounts, they are still a good way to store some money for the short term. Rates on accounts are at about 1% or less and are constantly changing, so the rate you can get now might not be the same two weeks from now.

The interest rates on a high-yield savings account are still better than rates on a regular checking or savings account, which according to the Federal Deposit Insurance Corporation (FDIC), rates average about 0.06%.

Unlike stocks and other securities, the money in high-yield savings accounts is insured up to a certain amount, either through the FDIC or the National Credit Union Administration insurance program. So you don't risk losing your money.

With investments, you often make money over the long term — but you might have to endure some dips along the way.

"Any money that you'll need in the next year or two shouldn't really be invested in things that could go down a lot in value," Barnett says."If I knew a client was going to buy anything in the next year or two, I wouldn't advise them to take a risk with that money."

Other products like money market savings accounts and certificates of deposit might have higher rates than a high-yield savings account, but often those types of accounts have limitations.

Money market savings accounts often have higher minimum balances, and CDs tie up the money for a set period of time in order to earn that slightly higher rate.

"You're not seeing huge differences in rates," Barnett says. "Everything is under 1%."

Where to Open a High-Yield Savings Account

If you’re looking for a high-yield savings account, online banks often have higher rates than brick and mortar ones, so shop around. But be careful.

Barnett says he recently received a solicitation email from a bank that said over the past 15 years its customers had earned more than 6% interest on their savings accounts and that right now, their rate is more than 3%.

“It’s just not real. Be aware that there’s rarely something called a free lunch out there,” Barnett warns. “If … everybody is 0.2% to 0.8% and you see something that says 3%, that should set off alarm bells.”

Other things to look for include:

- Minimum requirements for initial deposits.
- Monthly minimum balances.
- Monthly maintenance fees.
- Easy access to your money.
- Any fees for withdrawals over a monthly transaction limit.

Remember, even though your money is not growing rapidly in a high-yield savings account during this period of low rates, it is still growing.

“People are worried about the economy. People are worried about their jobs. The savings rate has definitely picked up in the last six months,” Barnett says. “We don’t want people to stop saving. I would encourage most people to save as much as they can to reach their goals.”

Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about finance, health, travel and other topics.