CERITY PARTNERS®

CASH IS BACK

Exploring Alternatives to Traditional Bank Accounts

With the recent rise in short-term interest rates, cash has re-emerged as a viable asset class for portfolio construction. In March, 3 Month Treasury Bills reached a yield as high as 5%, further turning cash from a zero-yielding liquidity management tool to an attractive asset class of its own. Bank checking and savings accounts have struggled to remain competitive, especially at many of the largest banks. Despite offering lower rates, large banks have generally been seeing deposit inflows from customers prioritizing safety after several high-profile regional bank failures. Faced with widening disparities between different options for holding cash, be sure to review your allocations and find the trade-off between convenience and return.

The following are a few options for parking cash that might be alternatives to checking or savings accounts:

Money Market Funds

These are offered through brokerage firms such as Charles Schwab, Fidelity and Vanguard, and normally offer higher rates than bank checking accounts while providing you with many of the same conveniences. These funds invest in safe and liquid short-term assets like government and agency debt, certificates of deposit, and corporate commercial paper. Taxable investors should also consider municipal money market funds, which invest in tax-exempt securities issued by states, local government, and other agencies.

The accounts are not FDIC-insured but generally invest in highly rated and liquid securities.

Most custodians will offer the ability to automatically “sweep” available cash from your investment accounts into money market funds. Often, these accounts still offer cash management tools like check-writing, wire transfers, direct deposit, bill payment, and ATM services. This may be a suitable option for cash in a bank account that can earn a return while still remaining available for payments and purchases. As a reminder, because it stays in your investment account, this cash is also readily available for other investments.

Certificates of Deposit (CDs)

CDs typically have a fixed maturity (e.g., 3 months, 6 months, one year, etc.). They may offer better interest rates than bank accounts or money market funds, in exchange for locking the money up until maturity. If you need to access cash in a CD before maturity, a bank may charge penalties. Therefore, if you’re planning to invest a significant amount over several years, you may want to consider laddering CDs by staggering their maturities. As long as you meet certain requirements (see below), CDs are FDIC-insured[1]. It is important to shop around before investing in a CD as rates can vary widely.

Short-Term Treasury Bills and Notes

U.S. Treasuries are regarded as among the safest investments available, featuring virtually no credit risk. Short-term treasuries currently offer an attractive yield with limited interest rate sensitivity. The price of longer-term treasuries (up to 30 years) is highly sensitive to interest rates, making them generally inappropriate as a cash substitute. As with CDs, you may want to stagger maturities by creating a ladder.

Ultra-Short Bond Funds

Ultra short-bond funds can invest in corporate bonds, municipal bonds, or other types of debt and typically have maturities of less than 2 years. These funds can provide a better overall yield than the options mentioned above, but the principal value will fluctuate with changes in interest rates, changes in credit quality, or other factors.

At Cerity Partners, we are committed to providing best-in-class solutions for our clients. In addition to the options above, the Cerity Partners Cash Management program can offer extended FDIC insurance and an attractive yield. Contact your Cerity Partners advisor to learn more.

What is the optimal cash management solution for you? That will depend on your individual objectives and liquidity needs:

- Manage Daily Spending and Bills: Everyday spending typically would require the convenience of a checking account. Because yields are currently much lower than other cash options, try and keep only what you need in these accounts.
- Park Extra Cash, Emergency Funds or Short-Term Savings: Cash beyond what is needed for daily spending can earn extra yield while still remaining accessible for near-term purchases, or emergencies. Consider using money market funds. If you would like to keep a large amount of cash on hand, the Cerity Partners Cash Management program can offer a competitive yield and FDIC coverage above the standard limits.
- Saving for Medium-Term Goals (1-3 years away): Structuring some combination of short-term bond funds, treasury securities, and CDs will typically address these needs.
- Saving for Longer-Term Goals (3+ years away): Even with the recent bump in interest rates, over an extended period of time, holding cash equivalents may lose purchasing power. A more advantageous strategy in this instance may be a well-diversified portfolio of stocks and bonds that suits your risk tolerance and objectives.

Important Considerations

- Watch out for hidden fees, restrictions and other costs; higher rates don't help if you're paying significantly more in fees.
- Always check for FDIC insurance coverage
- For those in a high-income tax bracket, keep in mind that you will likely have to pay taxes on your earnings (unless you own a municipal money market fund, certain municipal bonds or are investing in a retirement account).

What Does FDIC Insurance Cover[1]?

- Insures single and joint checking, savings and money market deposit accounts as well as CDs held at insured banks and credit unions.
- Does not cover money invested in stocks, bonds, mutual (including money market) funds, life insurance policies, annuities or municipal securities, even if purchased through an insured bank.
- Maximum insurable amount is $250,000 per depositor, per type of account per insured bank (if you have multiple accounts at a single bank, we strongly encourage you to check with the bank to confirm that all of your accounts are FDIC-insured)

We at Cerity Partners are ready to work with you, your attorneys and tax professionals on the merits and specifics of these and other investment and financial planning options. Contact us today for additional information on this or related topics. To learn more about the investment management and financial planning services offered by Cerity Partners, please visit our website at www.ceritypartners.com.

[1] For more information on FDIC Insurance, go to https://www.fdic.gov/resources/deposit-insurance/faq/ and contact your banking institution.

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