Wealth | Investing

Savers Worry They’ve Got Too Much Cash Just Sitting in Accounts

Falling interest rates are tempting some Americans to forgo safety and pour their savings into assets such as stocks and bitcoin.

Photographer: Paul Yeung/Bloomberg

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The savers are getting restless.

Running out of guaranteed ways to get meaningful returns, some people are increasingly being tempted to raid their interest-earning cash savings to load up on assets such as bitcoin, gold and stocks. The comfortable, if small, returns of high-yield savings accounts are looking less palatable as volatile assets take off.

For a while, Brian Harrington, 28, had been satisfied with a high-yield savings account at Ally Bank, earning a risk-free 2%. Now, the marketing consultant in Anaheim, California, is planning to convert his remaining $15,000 in savings into bitcoin. He thinks the future is one of long-term economic stagnation and low rates.

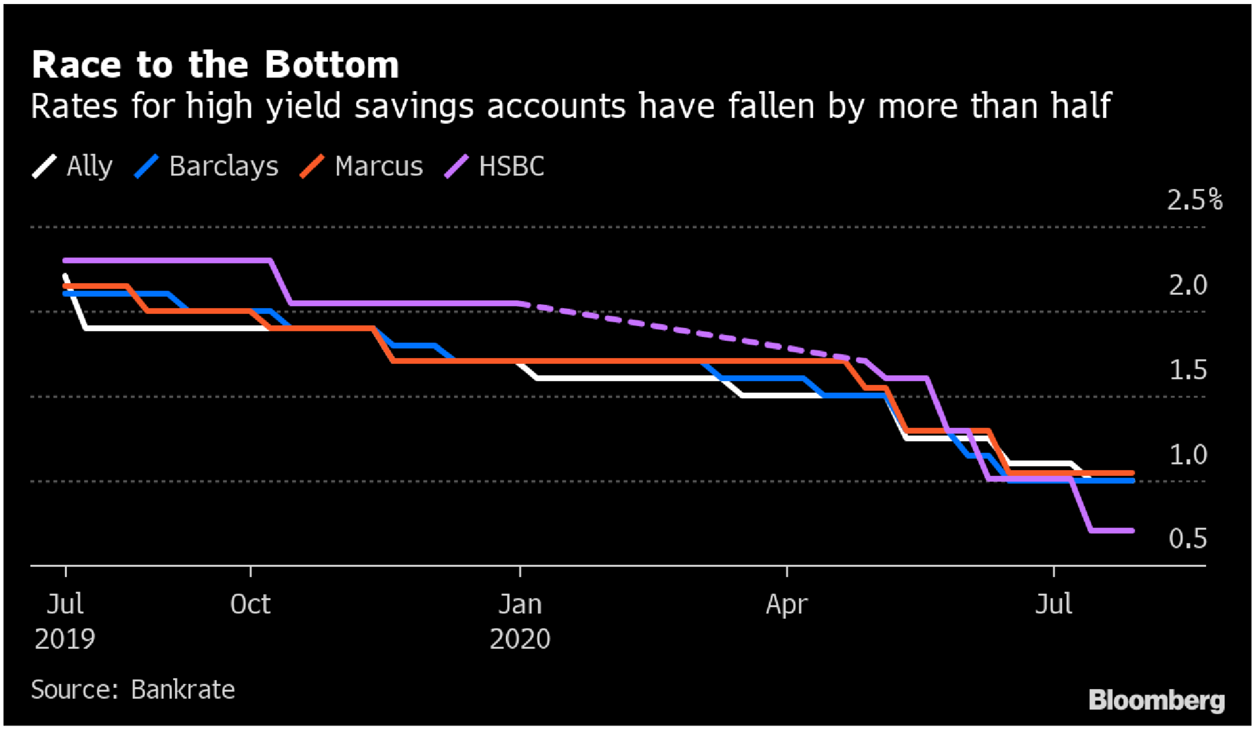
“I’m not rooting for Doomsday,” he said. “But you have to keep searching for yields.”

The last few months have, in some respects, been a boon for account balances. Nationwide lockdowns enacted to slow the spread of Covid-19 have cut consumer spending, and stimulus checks arrived for millions of Americans. The personal savings rate in the U.S. fell to 19% in June – still at historically high levels – after rising to a record 32.2% in April. Mint, a financial planning platform, told Bloomberg that its customers deposited 16% more into their accounts between March and June compared with the same period last year.

There’s one problem: Now isn’t a great time to hold onto money.

It had become standard advice in personal-finance subreddits and Facebook groups to keep extra cash in high-yield savings accounts, but the rates on those have fallen steadily for the past year. Popular brands such as Ally and Marcus – the consumer arm of Goldman Sachs Group Inc. – offered rates in July of 1% and 1.05%, respectively; both were over 2% a little over a year ago, when the U.S. Federal Reserve cut rates for the first time since the 2008 financial crisis.

“Some banks will drag their feet a bit to stand out from the crowd, but they’re all working their way down,” said Greg McBride, chief financial analyst at Bankrate.com, explaining the drop in returns across the board.



There’s no guarantee that yields for these accounts will rebound any time soon.

“The interest rates the Fed sets is a huge component, but it’s also related to the health of the overall economy,” said Anand Talwar, deposits and consumer strategy executive for Ally.

Other traditionally safe vehicles have taken a hit as well. The average rate for five-year certificate of deposits is 0.47%, down from 1.88% the same period last year, according to Federal Deposit Insurance Corp. data.

Bitcoin is up about 55% in 2020, while gold has risen 29%, smashing the record price set in 2011, as investors flock to the precious metal as a hedge against inflation. Stocks, meanwhile, have surged since bottoming out at the start of the coronavirus outbreak in the U.S.: From March 23 to July 1, the S&P 500 rallied 40%, its best 100-day performance since 1933, according to Bespoke Investment Group.

The once-in-a-century rally has given Americans confidence about the market in the long run. A survey by Bankrate found that 28% of Americans said the stock market was their top choice for long-term investments, up from 20% last year. Only 18% of respondents chose cash investments such as savings accounts or CDs, the lowest level recorded in eight years.

The results represent a remarkable shift toward risk, McBride said, noting that in previous surveys stocks came in a "distant third" to real estate and cash savings.

For Meyer Denney, a software engineer from Seattle, saving to buy a new house within the next five years means striking a delicate balance between certainty and upside.

The 35-year-old has most of his money parked in a high-yield savings account, for now. He's looking at funds that invest in consumer staples, or corporate bonds that don't carry the same volatility as typical stocks or index funds.

"I'm worried that in three years we see our dream house – but [then] the market tanks 10 or 15%," Denney said. "So I'm trying to err on the safer side."

Even in normal conditions, financial advisers recommend having a cash reserve of several months of expenses. In the middle of an economic downturn and a pandemic, that need for a cushion only increases.

"Given the precarious state of the economy and heightened risk of incurring out-of-pocket medical expenses, it's still important to have emergency funds in checking or savings accounts," said Heidi Shierholz, senior economist at the think tank Economic Policy Institute.

Edward Usuomon, 18, has no regrets about moving his money out of the bank. The Detroit native began working as a tutor last September; after a few months of saving he realized there were ways to make better returns than rates his Michigan First Credit Union account offered, which he recalls as being less than 0.5%.

"I first started trying out stocks for fun," he said. "Eventually I thought, 'Why do I have all of this money just sitting in my account?'"

So around the beginning of April he began withdrawing money from his savings account, a few hundred dollars at a time, to buy cryptocurrency, and shares of Tesla Inc. and Apple Inc. Usuomon now estimates he dedicates 25% of his salary to buying the higher-risk assets.

“I don’t have too much to worry about now besides my apartment and my car,” he said. “I’m trying to get into investments early so I can hopefully get rich.”