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# Money Market Deposit Accounts

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# Money Market Deposit Accounts

## What is it?

Money market deposit accounts are like money market mutual funds, but deposit accounts are FDIC insured, while mutual funds are not.

Banks, savings and loan associations, and credit unions began offering money market deposit accounts in 1982 in response to the growth of money market mutual funds that were being offered through brokers and mutual fund companies.

The rate of interest paid on money market deposit accounts rises and falls with interest rates in general. Most financial institutions require a minimum deposit and may charge you fees if your balance falls below a minimum level.

Depositors earn interest (usually credited daily) based on current money market rates, which are usually reset weekly. Money market deposit accounts typically earn a rate of interest that is higher than rates paid on savings or checking accounts but lower than rates paid on certificates of deposit (CDs).

## Strengths

### *Flexibility and liquidity*

It's easy to open a money market deposit account, and you can make deposits and withdrawals virtually whenever you like. The highly liquid nature of these accounts makes them valuable for storing money you want to hold in reserve for future use or in case of an emergency.

### *Higher interest rates than savings accounts*

Because money market deposit accounts invest in short-term debt instruments offering the potential for relatively high yields, they usually provide a return that is approximately one or two percent greater than a traditional savings account.

### *FDIC insured*

Most money market deposit accounts offered by chartered institutions are insured for up to \$250,000 per depositor per bank by the Federal Deposit Insurance Corporation (FDIC). Retirement accounts also are generally insured up to \$250,000. Credit unions provide comparable insurance coverage. This insurance applies to each ownership format per bank. For example, a married couple with \$250,000 each in accounts owned separately by each person and an additional \$400,000 in an account held jointly in both their names would qualify for FDIC coverage of the entire \$900,000.

## Tradeoffs

### *Restrictions may apply*

Some money market deposit accounts require large minimum deposits and may limit the number of withdrawals you can make during any given period. If you fail to maintain a minimum balance or if you exceed the permitted number of withdrawals, a penalty fee may be imposed. In addition, although some money market deposit accounts offer check-writing privileges, your bank may limit the number of checks you can write during a period or impose a minimum amount per check.

**Tip:** Read the fine print. Since restrictions may be different at each financial institution, shop around for the account best suited to your needs.

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## Tax considerations

Generally, interest on a money market deposit account is taxable in the year it is earned.



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