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Discover No-Penalty CDs for a Flexible Saving Option

You can lock in a rate and still have the option to withdraw your money early

by Marcus by Goldman Sachs® (Paid Content) | Comments: 0



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Certificates of deposit (CDs) are deposit accounts where money is placed for a fixed period of time at a fixed rate. CDs can be a great way to save since they aren't affected by interest rate decreases during the CD's term. But what happens if you need access to your money before the end of a CD's term? Banks typically charge early withdrawal penalties on CDs, based on the length of the term and the amount of time left on the CD before maturity. Sometimes this can mean you'll end up with even less principal than when you started. Not a good place to be!

No-penalty CDs were designed for just this scenario—and can help you avoid penalties. Found at online and other banks, no-penalty CDs can offer more flexibility than traditional CDs.

How does a no-penalty CD work?

The basics of a no-penalty CD are the same as for a traditional certificate of deposit: You deposit money for a specific length of time, called the "term," and your money earns interest at a fixed rate that will not change during your selected term. You get the benefit of knowing exactly how much interest you'll earn on your principal amount, without having to worry about surprise rate changes.

The difference boils down to flexibility.

Withdraw your balance if you need it—or if you change your mind

With a traditional CD, your money is locked away during the selected term while it grows. When the traditional CD matures at the end of the term, you have the option to withdraw all your money or roll it over into another CD or into another type of bank account. If you try to withdraw your money before maturity, you could be charged a penalty, often calculated based on the interest rate and the number of days remaining in the term.

But life happens and sometimes your plans change. With a no-penalty CD, you have the option to withdraw your full balance, including all the interest you earned, at any time beginning on a set date, typically beginning 7 days after funding – with no fee or penalty.

A quick comparison: no-penalty CD vs a traditional CD

	No-Penalty CD	Traditional CD
Fixed Rate	X	X
Can be FDIC-insured	X	X
Early withdrawal penalties	No fees when you withdraw the total balance, usually beginning 7 days after funding	Fees vary depending on the CD term and bank.

How a no-penalty CD fits into a financial portfolio

Whether you're saving for a big purchase for yourself or a loved one, or setting aside your emergency fund, no-penalty CD accounts offer three critical things:

- They offer predictability. You can earn a fixed rate of interest so you know exactly how much your money will grow.
- They offer access to funds (liquidity), providing freedom to access your full balance generally beginning 7 days after funding, if your needs change.
- They offer security. When the accounts are offered by FDIC-insured banks or NCUA-insured credit unions, up to certain limits.

Beyond the rate: How to choose a no-penalty CD

An account is more than its rate, so it's important to research and determine if a bank and its particular no-penalty CD accounts meet your needs, as well.

Some questions to consider:

- Is there a minimum balance? Some banks may also offer different annual percentage yields (APYs) based on your balance.
- How often does interest compound? The more frequently interest compounds (for example, daily vs monthly), the faster your money will grow.
- How accessible is your account information? Some banks offer a convenient mobile app or website where you can check your balance and upcoming maturity date and see your money grow.
- How can you reach customer service? Banks may offer support by phone, chat, and/or email.
- How is your account protected? Consider things like whether the bank uses browsers that encrypt information and multi-factor authentication among other measures.
- Is the account FDIC insured? The FDIC's BankFind tool can help you identify member banks.

Is a no-penalty CD right for you?

A no-penalty CD can provide you a simple way to earn interest on your savings with some added flexibility when compared to a traditional CD. And that flexibility can help you navigate changing rates. Look for a term that works with your savings goals. Depending on your needs, a no-penalty CD might check all the boxes.

AARP Members can open a Marcus high-yield No-Penalty CD with a special 8-month term for AARP members only. Learn more. Terms and conditions apply.

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Can withdraw balance beginning 7 days after funding.

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