PERSONAL FINANCE

What a Fed Rate Cut Means for Savings

Experts say the Federal Reserve will cut interest rates again at the next Fed meeting. Here's what that means for savings rates.

When the Fed raises interest rates, rates on savings accounts usually rise in tandem. For this reason, when the Fed started its rate-hiking campaign in March 2022 to reduce high inflation, savings rates rapidly rose. However, when the Fed cuts rates, which it's expected to do again this week, this means savings rates will also take a cut.

But don't expect your savings rate to drop off right away. As of right now, some of the top-earning high-yield savings accounts and CD accounts still offer rates of well over 4% and 5%, and after a rate cut, these accounts should still offer competitive rates — just not as good as they once were.

For example, at the start of September, a Marcus by Goldman Sachs savings account had an APY of 4.40%. After the September 18 Fed meeting, where they announced a 50 bps (0.50%) cut, Marcus dropped its savings rate to 4.25%, and in mid-October, it dropped to 4.10%, per a

Kiplinger staffer with the account. So while the Fed cut 0.50%, Marcus over that month period cut 0.30%.

But the Fed isn't expected to stop after two rate cuts — and your savings rates will continue dropping throughout the next couple of years. Most central bankers expect one quarter-point cut to the federal funds rate this week, four more in 2025 and another four in 2026.

Still, if you don't already have one, it's worth opening a high-yield savings account despite the next Fed meeting, so you can take advantage of high rates before they significantly fall. Even though rates are lower, there are still higher returns for your cash in high-yield savings accounts than sitting in an average checking or savings account.

Another option, which can help you avoid falling rates completely, is to open a CD account. Since the APY on a CD account is fixed, if you lock up your cash in one now, you won't have to worry about your APY going down until the CD matures. Just make sure you're comfortable with not being able to access your cash until the account matures.

The Fed's impact on savings rates

Starting in March 2022, the Fed raised interest rates 11 times in an attempt to combat high inflation, which peaked at 9.1%. This brought the Federal Funds to a target range of 5.25% to 5.5%, the highest it had been in 23 years. When the Fed began holding rates steady, savings rates started to inch downward.

As inflation cools, the Fed will cut rates, and savings rates will drop even more.

NYSUT NOTE: Increasing your savings is vital to securing your future. The NYSUT Member Benefits Corporation–endorsed Synchrony Bank offers extremely competitive interest rates through its savings program. It's convenient, easy to use and offers you a path to building your balances in higher-earning accounts.

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Erin pairs personal experience with research and is passionate about sharing personal finance

advice with others. Previously, she was a freelancer focusing on the credit card side of finance, but has branched out since then to cover other aspects of personal finance. Erin is well-versed in traditional media with reporting, interviewing and research, as well as using graphic design and video and audio storytelling to share with her readers.