# Savings 101: What Is a Share Certificate?

With so many financial products available, choosing which type of account to open can be just as stressful as deciding where to open one. For consumers looking for earnings on their savings, one of the options that credit unions offer is share certificates. Here's a brief overview of how they work and some of their advantages and disadvantages.

## The basics

Share certificates are a type of credit union savings account very similar to the certificates of deposit, or CDs, offered at banks. These accounts usually offer higher yields than regular savings accounts; in exchange, you leave your money in the account for a specified amount of time, ranging typically from three months to five years. Longer lengths tend to have better rates than shorter ones. If you withdraw your money too early, you can be charged a penalty.

In addition, money put into one of these accounts by members of federally insured credit unions is safe. Share certificates and other accounts are generally insured for up to $250,000 through the National Credit Union Administration, or NCUA.

## Certificate rates

The dividends, or earnings, you can make on a share certificate are typically quoted in terms of the annual percentage yield, or APY. This rate takes into account the compounding period, which is the frequency with which returns are added to the account. Credit unions can choose to compound rates on a yearly, quarterly, monthly or even daily basis.

## Early withdrawal penalties

If you withdraw money in a share certificate before the predetermined maturity date, you'll typically be charged a penalty. The amount can be a portion of the earnings, such as 90 days of dividends, depending on the account agreement.

## Types of certificates

Some credit unions offer variations on the product. Here are some of the most common:

- **Adjustable-rate certificates** — Also known as bump-rate certificates, these accounts let you upgrade to a higher yield than you started off with. If the credit union raises its certificate rates within the term of your account, you have the option of getting that boost. The exact percentage change and how often you can bump up the rate depends on the institution.
- **Youth certificates** — These accounts are designed for those who are under 18 years old. Often, credit unions offer youth certificates with low minimum balance requirements and different term lengths than regular certificates.
- **Jumbo certificates** — These accounts require a high minimum balance, typically in the tens of thousands of dollars, but usually come with better rates than other certificates.

## Certificate ladders

If you wish to take advantage of the higher rates of a five-year certificate but don't want to lock your money away for that long, you can set up a certificate ladder. This is a strategy in which you invest in certificates of different terms and roll the money over into a new certificate or withdraw it after each one expires. For example, if you invest $10,000, you can do the following:

1. Invest $2,000 each in five different certificates ranging from one- to five-year terms.
2. When the one-year certificate matures, roll that sum into a new five-year certificate.
3. The following year, take the proceeds from the matured two-year certificate and roll that into another new five-year certificate.
4. If you roll over each certificate as it matures at the end of each year, by the end of five years, you'll have a five-year certificate maturing each year. Every time one expires, you have the option to withdraw that money along with the earnings at the five-year rate.

Of the many savings products credit unions provide, share certificates offer a higher-yielding but still safe way to invest money for a set period of time. Consider whether the increased earnings offset locking away the money for the required time, and decide which one is right for you.