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Is a Brokerage Sweep Account a Good Place to Earn Interest?

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Senior female counselor gestures as she talks with a young couple during a marriage counseling session.
Getty Images

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The Federal Reserve has increased its benchmark interest rate nine times since the start of 2022. That makes mortgages, credit cards and other types of debt more expensive. But it also increases the yields paid by bonds, certificates of deposit, and even brokerage accounts.

Many brokerages keep uninvested cash in “sweep accounts” that automatically transfer, or “sweep,” the cash into interest-earning accounts at banks they work with.

Today, some brokerage accounts pay more than 4% per year in interest on uninvested cash. With that in mind, some investors might be wondering if it’s a good idea to keep their savings in their brokerage’s sweep account.

What is the interest rate in a sweep account?

From the Great Recession until early 2022, sweep account yields were negligible, and many accounts still yield less than 1% per year. But recently, some brokerages have launched money market- and CD-linked sweep accounts that yield anywhere from 1.5% to 5.1% per year.

Some of these interest rates are competitive with those paid by high-yield savings accounts. But according to Kashif Ahmed, a professor of finance at Suffolk University in Boston, non-money-market sweep accounts typically pay a lot less than comparable savings accounts.

"With the recent implosion of Silicon Valley Bank, First Republic and so forth, money market accounts have suddenly become super hot," Ahmed says.

"Some are yielding as high as 4%, but brokerage cash accounts seldom pay that high," he says.

Is cash in a sweep account FDIC-insured?

Christine Centeno, a certified financial planner and the founder of Simplicity Wealth Management in Richmond, Virginia, says that some brokerages sweep uninvested cash into Federal Deposit Insurance Corp.-insured accounts. That means the government will reimburse account holders up to $250,000 in the event of a bank failure.

But some brokerages don't sweep funds into FDIC-insured accounts, and some offer a choice between insured and uninsured accounts.

"Make sure, on account opening, that you're looking at what you're selecting," Centeno says.

Ahmed adds that sweep account dollars can only be FDIC-insured if and when they're deposited into an FDIC-insured account at a partner bank. They're not covered by the FDIC while they're on their way to the bank.

"A brokerage account is an investment account. It does not come with FDIC coverage on its own. It comes with SIPC coverage," Ahmed says, referring to the Securities Investor Protection Corp.

The FDIC and SIPC both have cash coverage limits of $250,000 per account, and most — but not all — brokerages are members of the SIPC. Read your brokerage's fine print to see what kind of insurance, if any, is offered for different sweep accounts.

Money market account vs. brokerage sweep account

The main difference between a money-market account and a brokerage sweep account is which features they come with by default.

Centeno says that many brokerage accounts can offer check-writing features and even ACH — automated clearing house — support for direct deposits or electronic payments, but only if account holders ask for them.

“You have to elect to have those things," she says. "A lot of the time those don’t come as a default. I could see somebody getting into a situation where they set it up and didn’t realize they didn’t add the additional features.”

Money market accounts, on the other hand, generally come with check-writing and ACH support by default, and they generally offer competitive interest rates. Some currently pay upwards of 4.75% per year.

Other considerations about sweep accounts

Centeno also says that the process of transferring money out of a sweep account isn’t necessarily instant.

“Let’s say you’re trying to pay a bill — it needs to get out of the money market fund and into actual cash, and then you could ACH it out,” she says.

Centeno says that you should look up the settlement period for the default fund in your sweep account to figure out how long it would take to access the money in the account.

Ahmed says that if you’re working with a financial advisor, they may charge a fee on your brokerage account balance, including the cash in your sweep account.

"If your direct deposit from your pay comes in there, and you use that to pay for your groceries, utility bills, your mortgage, et cetera, you shouldn't be paying the [advisor] fee for that, because they're not really managing that money," he says.

Should you use a sweep account for savings?

Some brokerage sweep accounts offer high yields and bank-like features, but Centeno says they're not good replacements for high-yield savings accounts.

"If we're talking emergency reserves, I literally see no reason to keep that in a brokerage," she says.

Ahmed agrees that a sweep account is no substitute for an actual bank account. "It may look like a bank account, it may even bark like one, but it isn't one," he says.

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