SAVINGS & INVESTMENTS

GROW YOUR MONEY

If you want your money to grow, you have a variety of options:

Savings Account:

- Easy access to your money at any time
- Usually earn a small amount of interest on your money
- Little to no risk
- Provides a small amount of guaranteed growth over time if you leave the money in the savings account

Guaranteed Investments:

- Little to no risk
- Usually offer a higher interest rate than a regular savings account
- Your funds are often locked in for a set term
- In most cases, the principal (the amount you invested) is protected & the interest is guaranteed

Higher Risk Options:

- If you have a higher tolerance for risk, there are options with potential for higher returns.
- Ask your Financial Institution or a knowledgeable and qualified financial planner

KINDS OF INVESTMENTS

Term Deposits/Guaranteed Investment Certificates (GICs):

- Basic investment type offered at most financial institutions
- An investment that promises a guaranteed return at a fixed interest rate over a specific term or set period of time.
- Redeemable Options:
  - Allows you to take your money out before the end of the term
  - You may receive a lower interest rate for the convenience of being able to access your money early
- Non-Redeemable Options:
  - Usually offer a slightly higher interest rate
  - You may be completely unable to access the funds before the end of the term or you may be charged an early withdrawal penalty if you do have to take out your money early.

- Be sure you understand the Terms & Conditions of your term deposit
  - Allows you to take your money out before the end of the term
  - You may receive a lower interest rate for the convenience of being able to access your money early
- Be sure you understand the Terms & Conditions of your term deposit:
  - Are you able to cash in your redeemable term deposit at any time or only on specific dates such as the anniversary date of your term?
  - If you redeem early, will you receive the full rate or a reduced rate?
  - How and when is the interest calculated and paid on your term deposit?
- Choosing a term:
  - Most FIs offer a variety of terms ranging from as short a time frame as 30 days up to terms of 5 or more years.
  - As a general rule of thumb, the longer the term, the higher the interest rate.
  - Consider the Interest rate - Watch for special promotional interest rates and compare rates to ensure you are getting the best rate you can.
  - Consider the intended use for your money - be sure you will be able to access your money when you need it. If you intend to save for a long time, you can pick a longer term.
  - Consider the overall market and economy - If rates are low, you may want to pick a shorter term an hope rates go up when your term renews. If rates are high, you may want to lock your money in for a longer period of time.
- Specialized term deposits:
  - Escalators - offer a tiered interest rate that increases as you move through the term.
  - Prime Rate Linked - interest rate is linked to the prime rate (either equal to or prime plus a certain percentage).
  - Stock Market Index Linked - growth is linked to the performance of certain stock market indexes.
    - Usually, your principal is guaranteed but the growth you receive is linked to the performance of the stock market index linked to the term deposit.
    - You may be able to choose from several different market-linked options. Often they will focus on a certain industry or specific national or international stocks. There may be a responsible investing option that selects stocks based on environmental and social considerations such as human rights, resource development and conservation, sustainability, etc.

Registered Retirement Savings Plans (RRSPs):

- Intended to be used specifically to help you save money for retirement.
- RRSPs are registered with the Canada Revenue Agency and there is a limit to how much you are allowed to contribute each year which is determined and confirmed by your Notice of Assessment.
- Advantages of RRSPs:
  - Reduces your taxable income when you contribute to your RRSP and defers or puts off the taxes on the growth you earn until you withdraw the money.
  - Basic Theory of RRSPs:
    - They allow you to pay lower taxes when your earning potential is highest and you may be in a higher tax bracket.

        - When you retire and withdraw the money, you have less income and may be in a lower tax bracket when you have to pay taxes on the money in your RRSP.
        - When you make a contribution to your RRSP, you can claim it as a tax deduction which will reduce the amount you pay in taxes that year.
        - They allow you to defer the taxes on the growth your RRSP earns until you withdraw the money so they can grow tax-free as well.
    - You can withdraw the money prior to retirement within the limits of the terms and conditions of the RRSP investment vehicle you chose. However, you will be taxed on the money when you withdraw it so most people find it beneficial to wait until they retire when their income tax rates may be lower.

- RRSPs are a great vehicle for saving for retirement:
    - The money is less accessible which can help to ensure the funds don't get used for other purposes.
    - If you start investing money when you're young, you're able to to invest over a longer period of time which, depending on your RRSP investment vehicle, has potential for a much higher rate of return.

- There are specific programs set up by the Government of Canada that allow you to access the funds from your RRSP for specific purposes without having to pay taxes on the money.
    - *Lifelong Learning Plan (LLP)*: a program that allows you to withdraw money from your RRSP tax-free. You can withdraw up to a certain amount from your RRSP tax-free to finance full-time training or education for yourself or your spouse or common-law partner. You have up to 10 years to repay the funds to your RRSP.
    - *Home Buyers' Plan (HBP)*: a program that allows a first-time home buyer to withdraw up to a maximum limit set by the government from their RRSP tax free to use to buy or build a qualifying home and they have up to 15 years to repay the funds to their RRSP.

- A spousal RRSP is another way you can use RRSPs and income splitting to save money in taxes.
    - If one spouse earns more than the other and is in a higher tax bracket, the higher earning spouse can set up a Spousal RRSP in the name of their spouse.
    - The higher earning spouse contributes to the RRSP and receives the immediate tax benefits.
    - When they retire and withdraw the money, their tax bracket will hopefully be lower when they withdraw from two smaller RRSPs than if they had withdrawn the money from one larger RRSP.

- RRSP Limits:
    - You can open multiple RRSPs but you must be careful because there is a limit to how much you can invest in an RRSP each year.
    - The limit is per PERSON and not per RRSP.
    - The limit applies across all of your RRSPs COMBINED.
    - The limit is currently 18% of your previous year's earned income or a yearly maximum amount set by the government, whichever is lower.
    - If you don't use all of your RRSP contribution room in a given year, that amount will carry forward and you can contribute that unused amount in a future year.
    - If you contribute more than your RRSP deduction limit, you will have to pay a tax which is calculated per month until you withdraw the excess amount.

- You can contribute to your RRSP until December 31 of the year you turn 71(or the end of the year your spouse turns 71, in the case of a spousal RRSP).
- You can choose to withdraw the money from your RRSP at any time until the end of the year you turn 71, at which time you will need to convert it into a Registered Retirement Income Fund (RRIF).

Registered Retirement Income Funds (RRIFs):

- RRSPs allow you to make regular contributions to save for retirement. RRIFs allow you to receive regular withdrawals to fund your retirement.
- You can choose from a variety of investment options for your RRIF - GICs/Term Deposits, Mutual Funds, Stocks or Bonds.
- A RRIF allows you to continue to grow the funds in your plan while allowing you to receive money from your RRIF.
- RRIF Withdrawals
  - When you withdraw money from your RRIF, you will now have to pay taxes on that money.
  - Ideally, you will be in a lower tax bracket when you withdraw the money than you were when you contributed the money.
  - You do not pay taxes when you convert your RRSP to a RRIF, you only pay taxes on the amount that is withdrawn each year and it is treated as income for tax purposes.
  - The rest of the money in your RRIF will continue to grow tax free until you take it out.

Tax Free Savings Accounts (TFSAs):

- Introduced by the Canadian government in 2009.
- Allows people who are 18 years old or older and who meet the eligibility requirements to save money in a registered plan without having to pay taxes on the growth earned by their investment.
- TFSA Limits
  - There is a set limit to the amount of money you can contribute to a TFSA each year and it is the same for everyone who qualifies regardless of income.
  - Whether you open a TFSA right away or not, your contribution room begins in 2009 or the year you turn 18 and will continue to grow each year.
  - Any unused contribution room is carried forward.
  - If your contributions exceed the contribution limit, you will have to pay a tax on the highest excess TFSA amount during the month for each month until you withdraw the excess amount.
- TFSAs are a great way to save money, even for retirement.
  - You do have to pay taxes on the money you invest in a TFSA
  - You do not ever have to pay taxes on the money your TFSA investment earns.
  - Many people find it helpful to save for retirement using both a TFSA and an RRSP as they both provide different benefits.
- TFSAs are convenient and useful for a wide variety of savings goals.
  - Can be used to save for any short or long term goals.
  - Depending on the terms and conditions of the investment vehicle you choose for your TFSA, you can withdraw the money at any time and for any reason.
  - When you withdraw the money, the following year the amount you withdrew will be added back to your contribution limit and any unused contribution room will carry forward to use in future years.

- TFSAs provide a great tax benefit.
    - You can choose from a wide variety of investment vehicles to invest in a TFSA, from basic savings accounts, to term deposits and even mutual funds and stocks and bonds.
    - You do have to pay taxes on the money you invest in your TFSA but you don't have to pay taxes on the growth your TFSA earns so the higher the rate of return on your investment, the greater the tax benefit from your TFSA.
- TFSAs do not interfere with you ability to receive income-based benefits from the Government (such as Guaranteed Income Supplement, Old Age Security, Employment Insurance, Child Tax Benefits, etc.)
- TFSAs vs. RRSPs - have many different but complementary features
    - An RRSP is intended for retirement savings but a TFSA can be used to save for any purpose.
    - RRSPs are tax-deductible when you invest but TFSAs are not.
    - You must pay taxes when you withdraw your money from an RRSP but you do not have to pay any taxes when you withdraw the money from your TFSA.
    - You can only contribute to an RRSP until you are 71 years old (or your spouse is 71 in the case of a Spousal RRSP) but there is no age cap for contributions to a TFSA.
    - For help deciding whether a TFSA or RRSP or both will best suit your personal situation, contact your financial institution or a qualified financial planner and they will be happy to help.