

## 4.2 Savings & Investments – Term Deposits

### GICs / Term Deposits

The basic investment type offered at most financial institutions is called a Term Deposit or a GIC (Guaranteed Investment Certificate). Essentially, a term deposit is an investment that promises a guaranteed return at a fixed interest rate over a specific term or set period of time. Usually, you can choose between a redeemable or a non-redeemable option. As the name suggests, a redeemable term deposit allows you to take your money out before the end of the term, though you may receive a lower interest rate for that convenience. And a non-redeemable term deposit, will usually offer a slightly higher interest rate but 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. It's also important to understand the terms and 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?

Most FIs will 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. Though, from time to time FIs may offer special promotional interest rates on a specific shorter term so be sure to compare all the terms and rates to ensure you are getting the best rate you can. When choosing a term, the interest rate is an important consideration. You should also consider what you intend to use the money for and pick a term that works with that end goal. For example, if you are saving for a vacation you intend to take in 2 years, be sure to pick a term that will finish in enough time for you to access the funds when you are booking your vacation and need to pay for everything and not just for when you plan to leave on vacation. However, if you are saving for retirement 20 years down the road, a 5 year term may make the most sense. Another consideration is what the overall market and economy is like when you are ready to start your term deposit. If interest rates are low, you might want to pick a shorter term and hope that they go up when your term renews. If interest rates are high, you may be better off locking in your money for a longer period of time to ensure the best return on your money.

Your financial institution may also offer some more specialized term deposits with slightly different features than the standard term deposits. Some longer-term deposits, often called Escalators, may offer a tiered interest rate that increases as you move through the term. For example, for the first year you might receive 1% interest and for the second year you might receive 1.25% interest and for the third year you might receive 1.75%. Usually these term deposits are redeemable but, of course, the longer you leave it in, the more interest you earn.

Your FI may offer a term deposit with an interest rate that is linked to the prime rate. For example, the rate you earn may be the same as the prime rate or even prime plus a certain percentage. So, your rate of interest on your term deposit will fluctuate throughout the term depending on what the current prime rate is. If the prime rate goes up, so does your interest rate. If the prime rate goes down, so does your interest rate.

Some FIs will offer term deposits that are linked to certain stock market indexes. Usually, when you invest in these term deposits, your principal is guaranteed and protected but the growth you receive is linked to the performance of the stock market index linked to the term deposit. If they do well, you

could receive a high rate of return over your term. However, if the linked index does not do well, you will receive a very low rate of return or even none at all. Be sure you understand the terms and conditions of the term deposit when you make your investment. These market-linked GICs or term deposits are usually based on the performance of a specific stock market index but you may have several different market-linked GIC options to choose from. Often they will focus on a certain industry or specific national or international stocks. They may even have a responsible investing option that selects stocks based on environmental and social considerations such as human rights, resource development and conservation, sustainability, etc.