Module 5 - Saving **HANDOUT 5-6**

Savings tools (basic)

High interest savings account:
This is a type of deposit account. The bank pays you interest on your deposits. The rate of interest changes (variable rate interest). The interest is slightly higher than a regular savings account. This is a very safe kind of account as it is covered by deposit insurance. You could use it to save money for the short, medium or long term. You can withdraw this money whenever you like. There may be fees for withdrawing money. There may also be a required minimum deposit.

Guaranteed Investment Certificate (GIC):
This is another very safe type of deposit account. Your money is 'locked in' for a length of time called a term. The term can range from 30 days to five years. The longer terms often come with higher interest rates. At the end of the term, we say the money "matures". Then you can withdraw it. You could use this to save for something medium-term or long-term. You would plan it so that the GIC matures before you need the money. GICs require a minimum deposit of $100 to $500. They are covered by deposit insurance.

Bonds:
This is a type of investment. It means that you lend your money to a government or a corporation. They pay you interest on your loan over a period of time called a term. Corporate bonds hold some risk. You could use bonds to save for medium or long-term goals. The safer the bond, the lower the rate of return. As of November 2017, sale of Canada Savings Bonds will be discontinued. Learn more about CSBs at: http://www.csb.gc.ca/

Stocks:
This is a type of investment. You buy shares in a business that is publicly traded on the stock market. This can be very risky, because you can lose all of your investment. Some people buy stocks to try to make money fast. It is less risky to hold onto stocks for medium and long-term savings goals.

Mutual fund:
This is a type of investment tool. You invest your money, along with many other investors, into a "pooled" fund. The fund manager buys a range of things such as stocks and bonds. Mutual funds all have different levels of risk. They also have different rates of return (how much money you make from the investment). Mutual funds have fees, and these reduce your return. Mutual funds are best used for long term savings goals. You can only buy into a mutual fund through a licensed dealer, such as a bank or financial advisor. They are not covered by deposit insurance.

Registered Retirement Savings Plan (RRSP):
This is a way of saving on taxes while you save for retirement. When you put money into an RRSP, you can invest it as you choose, in savings accounts, GICs, stocks, and so on. This is a very useful way to save if you are working and paying taxes. It is not as useful if you are living on a very low income or collecting social assistance.
You can open an RRSP at a bank, credit union, or investment management company.

Registered Education Savings Plan (RESP):
This is a way to save for your child's education after high school. The government adds money to the money you save. This is called the Canada Education Savings Grant (CESG). You can invest the money in the RESP as you choose, in savings accounts, GICs, and so on. You can open an RESP at your bank or a company that handles RESPs. Watch out for companies that want you to sign a contract requiring you to make monthly payments into an RESP.

The Canada Learning Bond (CLB):
This is a government benefit for low-income families. It helps you to save for your child's education after high school. The CLB is available to children:

- Born on or after July 1, 2004
- Who are residents of Canada
- Who have a valid Social Insurance Number; and
- Who are from low-income families

If eligible for the CLB, a child could receive a total of up to $2,000, deposited to an RESP. This includes:

- $500 for the first year of eligibility; and
- $100 for each year they remeain eligible, until the year they turn 15

In addition, the Government of Canada will deposit $25 into an RESP to help cover the costs of opening the plan. A child can get the CLB in an RESP even if you do not contribute any more to the plan.

Tax-Free Savings Account (TFSA):
This is a way of saving and investing money without having to pay tax on the interest you earn. You can open a TFSA at your bank if you are 18 or older, a Canadian resident, and have a Social Insurance Number. There are rules about how much you can put into the account in a year. You can invest the money in the TFSA as you choose, in savings accounts, GICs, and so on.