MODULE 5

Savings tools (detailed)

Handout 5-7

High interest savings account

This is a type of deposit account. The bank pays you interest. The rate changes with the prime rate set by the bank. This is called a variable rate of interest.

Right now, the interest rate on a basic savings account is around .02%. The interest rate on a high interest savings account can be 2%, which is 100 times larger.

There may be fees for withdrawing money. There may also be a required minimum deposit.

This is a very safe way to save, and is covered by deposit insurance. It is best used for short to medium-term investments.

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.

The interest rate might be fixed or variable but most commonly provides a guaranteed interest rate for the life of the term.

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. When the term is over, you get all of your money back.

Corporate bonds hold some risk. They are only as secure as the corporation who issues them. You need to research them and get some advice from a financial professional. The safer the bond, the lower the rate of return.

There is a minimum investment required to buy bonds. You could use bonds to save for medium or long-term goals.

MODULE 5

Savings tools (detailed)

Handout 5-7 (continued)

Stocks

This is a type of investment. You buy shares or 'stock' in a company that is publicly traded on the stock market. You make money from stocks in two different ways:

1. The value of shares goes up and down. Their value is affected by the health of the company, and by what is going on in the stock market and the economy. You can make money by selling the shares for more than you paid for them. The money you make is called a capital gain.
2. You can receive a small portion of company's profits. This is called a dividend.

Buying stocks can be very risky, because there is a chance that you will lose all of your investment. Stocks are not covered by deposit insurance. The greater the risk, the higher the potential profit.

You pay a fee to a broker to buy and sell shares. Stocks can be used for short, medium, or long-term investments.

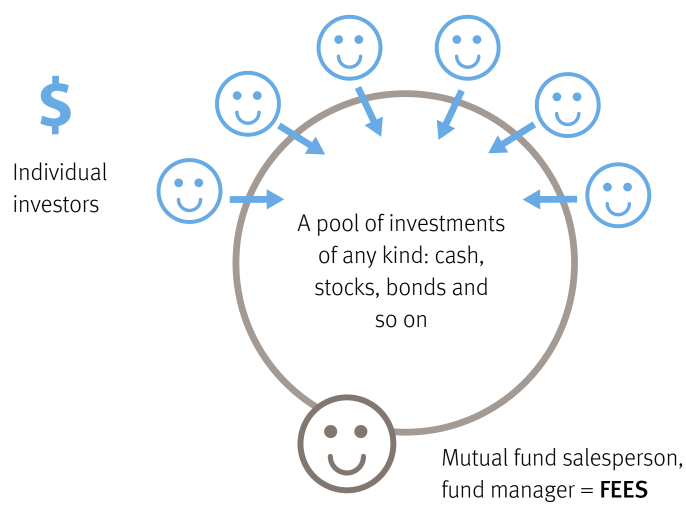
Mutual funds

A mutual fund is a type of investment tool. You invest your money, along with many other investors, into a "pooled" fund. The fund's manager buys a range of things such as stock and bonds.

Mutual funds have different levels of risk. They also have different rates of return – how much money you make from the investment. You choose what fund you want to invest in depending on its rate of return, risk level, and fees.

You can only buy into a mutual fund through a licensed dealer. Mutual funds have fees that can be quite complex. Fees reduce the amount of your return.

Mutual funds are not covered by deposit insurance. They are best used for long-term investments.



MODULE 5

Savings tools (detailed)

Handout 5-7 (continued)

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. You need a Social Insurance Number (SIN) and you must file a tax return.

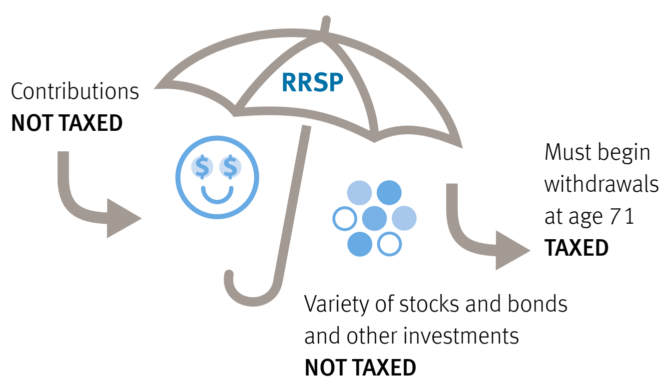
There is a limit to how much you can contribute to your RRSP each year. The limit depends on your income. If you do not use all of your contribution room, it carries forward to future years. When you get your Notice of Assessment after you file your taxes, it will tell you how much contribution room you have.

The money you put in an RRSP and the interest you earn is not taxed until you withdraw it in the future. That means that when you file your taxes, your RRSP contribution lowers your taxable income for that year. That reduces the taxes you must pay, and you might even get a refund.

However, you must pay tax on money that you take out of the RRSP. You must begin withdrawals at age 71. You pay taxes on both the savings and the growth of the money when you withdraw it. If you take money out before you turn 71, the government takes 20% of what you withdraw right away. This is called a withholding tax. There could be other taxes as well.

You can withdraw some money from an RRSP without paying taxes right away, to either buy a home or go back to school:

- **Home Buyers Plan:** You can use up to $25,000 from your RRSP as a down payment on a qualified home purchase. You must put the money back into your RRSP at a certain rate each year, and replace all of it within 15 years. If you don't, it gets taxed.
- **Lifelong Learning Plan:** You can use up to $10,000 a year and up to $20,000 from your RRSP to pay for your own or your spouse's education. You must put the money back into your RRSP at a certain rate each year, and replace all of it within 10 years. If you don't, it gets taxed.



MODULE 5

Savings tools (detailed)

Handout 5-7 (continued)

If you are working and paying taxes, RRSPs are a good way to save for retirement. These savings add to what you receive from the Canada or Quebec Pension Plan and Old Age Security. Some jobs come with pension plans, but most people have to pay for at least some of their retirement on their own.

For most of us, our income goes down when we retire. If you put money into RRSPs during your higher earning years, you save on taxes, because you pay tax based on your lower income after you retire.

Registered Education Savings Plan (RESP)

University and college are expensive and tuition costs are going up. While these costs will depend on the student's program and type of housing, in 2014 the cost of an average four-year university program was estimated at $64,000. This can be a lot to save for.

Saving early for your child's education can make these costs easier to manage. A Registered Education Savings Plan is a way to save for your child's or grandchild's education after high school. The government adds money to the money you save, so it grows faster.

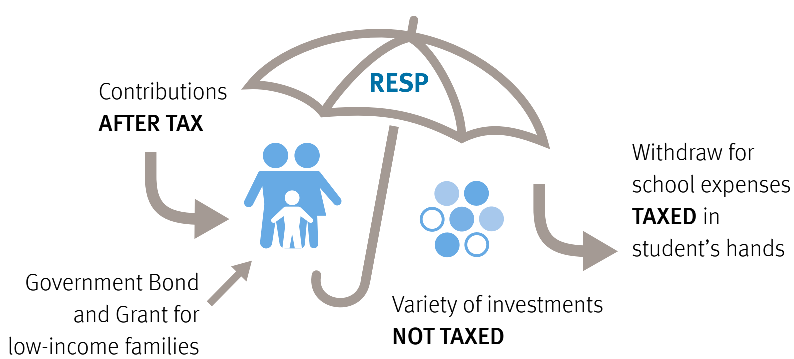
You can invest the money in the RESP as you choose, in savings accounts, GICs, and so on. You can open an RESP through a bank, credit union, life insurance company, investment company, or scholarship trust company. You are called the subscriber and your child or grandchild is the beneficiary.

The beneficiary must be a Canadian citizen or permanent resident and must have a Social Insurance Number (SIN).

The money in an RESP grows tax free until it is withdrawn. Then the money is taxed in the hands of the student, who will likely pay little or no tax, because their income is low while in school.

Banks, financial institutions, and investment companies will let you make choices about how to save money in the plan. Scholarship trust companies do not offer the same range of investment choices. Also, their fees can be complex and expensive, with many extra rules and restrictions. Be careful about signing contracts that require monthly payments into an RESP.

You must use all the funds in the RESP funds or close the plan within 35 years of opening it. If you could not use the funds for education, you can keep the contributions you made. The government will tax the growth portion of the money when it is withdrawn. You must return any grant or bond amounts.



MODULE 5

Savings tools (detailed)

Handout 5-7 (continued)

The Canada Education Savings Grant (CESG)

When you open an RESP account and put in money, the government matches some of it in the form of a grant. The amount depends on your family income. It can be from 20% to 40% of what you put in, up to a yearly limit of $500. The grants end when your child turns 17. The total amount of grants you can get is $7,200.

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 remain 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.

The Registered Disability Savings Account (RDSP)

This is a savings plan available only to people who qualify for the federal government disability tax credit. It is a long term savings plan to ensure savings for a disabled person later in life. It offers a bond portion for low-income individuals and a matching grant as well for contributions you chose to make.

MODULE 5

Savings tools (detailed)

Handout 5-7 (continued)

Tax-Free Savings Account (TFSA)

This is a way of saving and investing money without having to pay tax on the money you earn from interest or investing. 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. This is called contribution room. If you do not use your contribution room, you do not lose it. Unused contribution room carries forward into the future. The amount you can contribute each year may change, due to inflation or government policy.* These are the annual contribution limits through 2018:

2009, 2010, 2011, and 2012:	$5,000 each year
2013 and 2014:	$5,500 each year
2015:	$10,000
2016, 2017, and 2018:	$5,500 each year

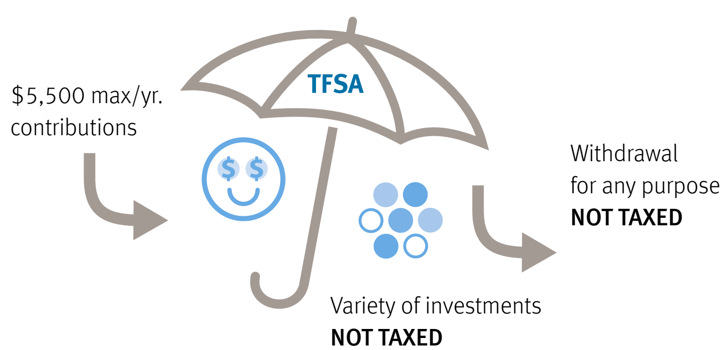
If you contributed the full amount, by 2018 you would have put $57,500 in your TFSA.

When you take money out of your TFSA, you can put it back the next year. It does not affect your contribution room.

Within your TFSA, you can invest your money in a range of ways, such as GICs, stocks, and bonds.

TFSA withdrawals will not affect the amount of money lower income earners receive from federal government benefit programs, including the Canada Child Benefit (CCB) and the Guaranteed Income Supplement (GIS).

This is a very flexible tool for medium to long term savings goals. It can reduce taxes on our savings and investment income. It is also another way to save for retirement.



*For more information, visit: https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account.html