6 times when a GIC is a smart investment choice

Yes, they're conservative—and that's precisely why there are life stages and circumstances when a guaranteed investment certificate is the right investment choice.

by Brandie Weikle Oct 3, 2019

A guaranteed investment certificate (GIC) may seem like your grandfather's kind of savings product. After all, his generation was fond of similar investment tools, like government savings bonds and treasury bills, and benefitted from periods where interest rates were high enough to make these low-risk products quite attractive.

Issued by banks and trust companies, GICs* work much like a savings account with interest rates that are slightly higher. The main difference is you promise to leave the funds alone for a set amount of time—usually ranging from one to five years. Your principal is protected by the Canadian Deposit Insurance Corporation (or provincial deposit insurance for GICs with credit unions or trust companies), up to $100,000 per product, in most cases. You can have multiple insured GICs up to $100,000 in each of your RRSP, TSFA, non-registered account and joint spousal non-registered accounts at one financial institution, and do the same at another institution as needed to ensure your money is fully protected. And the rate of return is certain. Should you need the cash earlier, in most cases you pay a penalty and get a portion of the interest. Some cashable GICs let you get out with no penalty, but these carry lower interest rates than regular GICs.

Given that stability, there are times when a GIC may be just right, says Annie Kvick, a Certified Financial Planner with Money Coaches Canada in North Vancouver. "It's a great tool to have in your investment toolbox," she says. "You can pick it up when you have a need for it."

Here's a look at some of the circumstances when a GIC makes sense:

1. Your child will soon be going to college or university.

When you first start saving for a child's education, the stock market is a great place to be. With an 18-year outlook to weather market ups and downs, a registered education savings plan made up mostly of mutual funds and index funds is likely to get you the largest overall return. But once the kids are only a few years away from going to university, Kvick says many of her clients turn to a GIC when they "just want to park the money in something safe."

2. You're planning a wedding, trip or other major purchase.

You've been saving for a while for your dream wedding or round-the-world trip, but the big event is still months or years away. If you'd like to make a little more interest on your funds than you could in your high-interest savings account—plus ensure you won't be able to dip into them for other things—a GIC* is a good bet, says Kvick. Short-term GICs are available for terms as little as 30 days, the tradeoff being that they pay lower interest than long-term GICs of a year or more. "The important part is to line up the money with the right time horizon. If you don't know exactly when you're going to get married, it's better to have a short-term GIC." You can roll these over to the next 30- or 90-day period until the occasion arrives.

3. You're losing sleep over the stock market.

"Occasionally I run into extremely conservative investors who will just not invest in the stock market at all," says Ed Rempel, a certified financial planner and certified public accountant in Brampton, Ontario. Although he cautions that inflation can easily eat up the returns from a GIC in today's low-interest-rate climate, GICs usually offer a better return than a savings account, especially those with longer terms. Similarly, if you're a stock market investor who's getting nervous about the prospect of a downturn, says Kvick, it may make sense to shift a portion of your portfolio into GICs to ensure a portion of your funds is protected.

4. You have trouble meeting your short-term savings goals.

Keeping a handle on day-to-day expenses can be a struggle, making it tough to leave the money you're setting aside in a savings account alone. "A GIC is good because it creates a second barrier," says Kvick. It's much harder to access funds in a GIC—and impossible in the case of non-redeemable GIC*—than it is to simply transfer the funds when the chequing account runs low, or dip into them with your debit card at the store. A six or nine-month GIC can help you protect the funds you've saved for Christmas presents or a new set of winter tires. To get yourself started, set up an auto-deposit from each paycheque to a savings account that you don't have connected to your everyday bank card. Once you've amassed the minimum required (often $500), you can purchase your first GIC. Keep saving and see if you can add to it, or buy another once the first one matures.

5. You want cash available for good stock market opportunities.

One way that savvy investors can make use of GICs* is to utilize the redeemable kind to keep some cash on hand for times when market downturns make a desirable stock a little more affordable. If you have your eye on a stock that's usually quite expensive, the funds you keep safe from fluctuations in a GIC can help you snap it up when the price is right, says Kvick.

6. You're retired and will soon need to access the funds for living expenses.

You don’t need all of your retirement funds at once; nor should you liquidate them to cash products that make you vulnerable to inflation, says Rempel. Money that’s still going to be invested for another 20 years will have time to bounce back from stock-market lows. But it can be prudent to move the funds you’ll need within the next couple of years into a GIC set to mature then, a process you can repeat incrementally to cover your living expenses and Alaska cruises all through retirement.