Have a Savings Account? Why Your Interest Income May Be Down 95%!

Description

One of the ways that you can save money without having to take on any risk at all is to put your money into a savings account. You can earn a nominal rate of return that you don't have to worry about your money. But if you have money saved at a bank, now may be a good time to check your account activity. You may see a nasty surprise in there: your monthly interest income could be a tiny fraction of what it was just a few months ago.

Interest rates slashed

If you're a **Royal Bank of Canada** customer, you may have noticed that the bank's High Interest eSavings account is now paying a paltry 0.05%. Just a couple of months ago, that interest rate was 1.05%.

As an RBC customer myself, it was shocking to see my balance relatively unchanged over the past couple of months, yet my interest payment for the month was 1/20th what it was just two months ago.

A quick look around and using internet archives I noticed that other banks were doing the same thing. **Toronto-Dominion Bank** was paying up to 0.95% on its ePremium Savings at the end of February. But as of May 8, that interest rate is now down to just 0.1%.

As for **Bank of Montreal**, on February 1 its highest interest rate was as much as 1.6% for certain high balance accounts and 0.8% on its Smart Saver account. And in May, that 1.6% interest rate is now down to just 0.7% and the Smart Saver rate is down to 0.05%.

It's a frustrating situation for savers and investors who don't want to put their money into a volatile stock market. And it also puts into context some of the help that the big banks have been offering customers during the COVID-19 pandemic.

Why there's no real replacement for a good dividend stock

These interest rate changes are an important reminder for investors as to why dividend stocks will always reign supreme over savings accounts. They offer much better payouts and in some cases companies even increase their dividend payments as well. Utility company **Emera Inc** (TSX:EMA) is a great example of that. Shares of the company are down around 3% this year.

Today, Emera pays its shareholders a quarterly dividend of $0.6125. Annually, that yields around 4.5% — far and away better than any savings rate you'll get at a bank. And what makes the company's payouts even better is that Emera has been increasing them over the years.

Back in 2017, Emera's quarterly dividend payments were $0.5225. That's an increase of 17% since then, averaging a compounded annual growth rate of 5.4%. At that rate, your dividend payments would double in a little over 13 years.

Emera's a good place to invest your money whether you plan to hold the stock for the long term or if you just need a safe place to park your cash until conditions in the economy improve. With a good dividend, lots of recurring cash flow and consistent profits, it's one of the better dividend stocks you can hold right now.

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