



Thinking of Putting Your Emergency Fund in a GIC? Consider This First...

Description

If there's anything we've learned from the last year-and-a-half of lockdowns, high unemployment, and inflation, it's this: You need an emergency fund. Period. A lump sum that can cover three to six months of living expenses will help you stay afloat if things get ugly.

But three to six months of savings is a *lot* of cash. And if it's sitting in a savings account, it's probably earning next to nothing. Growth-minded Canadians who'd like their emergency savings to keep pace with inflation may be wondering: *Is there a better place to put my savings?*

With that question in mind, let's look at a popular savings vehicle, the guaranteed investment certificate (GIC). These investments promise lucrative interest rates at no extra cost to you. But do they make good emergency funds? Let's check it out.

What *is* a guaranteed investment certificate (GIC)?

A guaranteed investment certificate (GIC) is an investment that grows your money at a fixed interest rate, while also guaranteeing that you'll get your initial deposit back. GICs come with terms that specify how long you must keep your money in your account before you can finally cash it out. Terms are usually anywhere from one to five years, though they can be shorter or longer than that.

GICs don't cost anything unless you break the rules in your contract before your term ends. For example, if you have a five-year GIC and you need to withdraw your money after the first year, you could pay a penalty for withdrawing funds or forfeit whatever interest you earned.

Most Canadians take out GICs in order to lock in an interest rate. High-interest savings accounts (HISAs) and regular savings account could never promise that luxury. Once you take out your GIC, your interest rate is set in stone, no matter what happens to the economy or prime rate.

Do GICs make good emergency funds?

I'll go ahead and say it: Most GICs *don't* make great emergency funds. You may get a higher interest rate, but you'll have to lock your emergency savings for a specific amount of time, anywhere from a year to five years. If you want to access this money, you have to prove to your bank that you're in dire need of it. And even then you'll most likely sacrifice the interest you earned or pay a penalty.

Restricting access to your emergency fund pretty much defeats the whole purpose of having it. But one kind of GIC *may* make a good emergency fund: the *cashable* GIC.

What is a cashable GIC?

A cashable GIC takes the concept of a GIC one step further. Rather than locking your money in an investment for five years, you can withdraw from your GIC without penalty.

There are a few catches, however. CGICs typically have a waiting period of anywhere from one to three months. During this period you can't withdraw money. Once the waiting period ends, you can start making withdrawals. Terms on a CGIC are usually fairly short — around one year — though you can find longer terms, too.

Do cashable GICs make good emergency funds?

A cashable GIC could make a good emergency fund, but make sure you read the terms and conditions carefully. Though you may not forfeit interest or pay penalties to withdraw cash, you often have to leave a minimum amount in your CGIC. That could come back to haunt you if you need to cash out everything.

Similarly, don't take out a cashable GIC without comparing the interest rate to other savings vehicles, like a high-interest savings account (HISA). Though non-redeemable GICs usually have higher-than-average interest rates, cashable GICs typically *don't*. You can probably find a HISA with a much higher rate.

Finally, at the end of the day, keep in mind: an emergency fund isn't an investment. It's a safety net. While you should definitely choose a savings account that helps your emergency fund earn at the rate of inflation, don't get too greedy. Keep your savings philosophy separate from your investing strategies, and you'll keep your emergency fund safe.

Speaking of investing strategies ...

CATEGORY

1. Personal Finance

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred

5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Personal Finance

Date

2025/06/30

Date Created

2021/05/29

Author

sporrello

default watermark

default watermark