

The GIC Dilemma – Will You Have Enough?

Many investors like the safety and predictability that a GIC offers. However, while GICs can fill a specific need in an investor's portfolio, it is important to consider both inflation and tax implications into your real after-tax return.

The Interest Rate Needed to Break Even With Inflation And Taxes

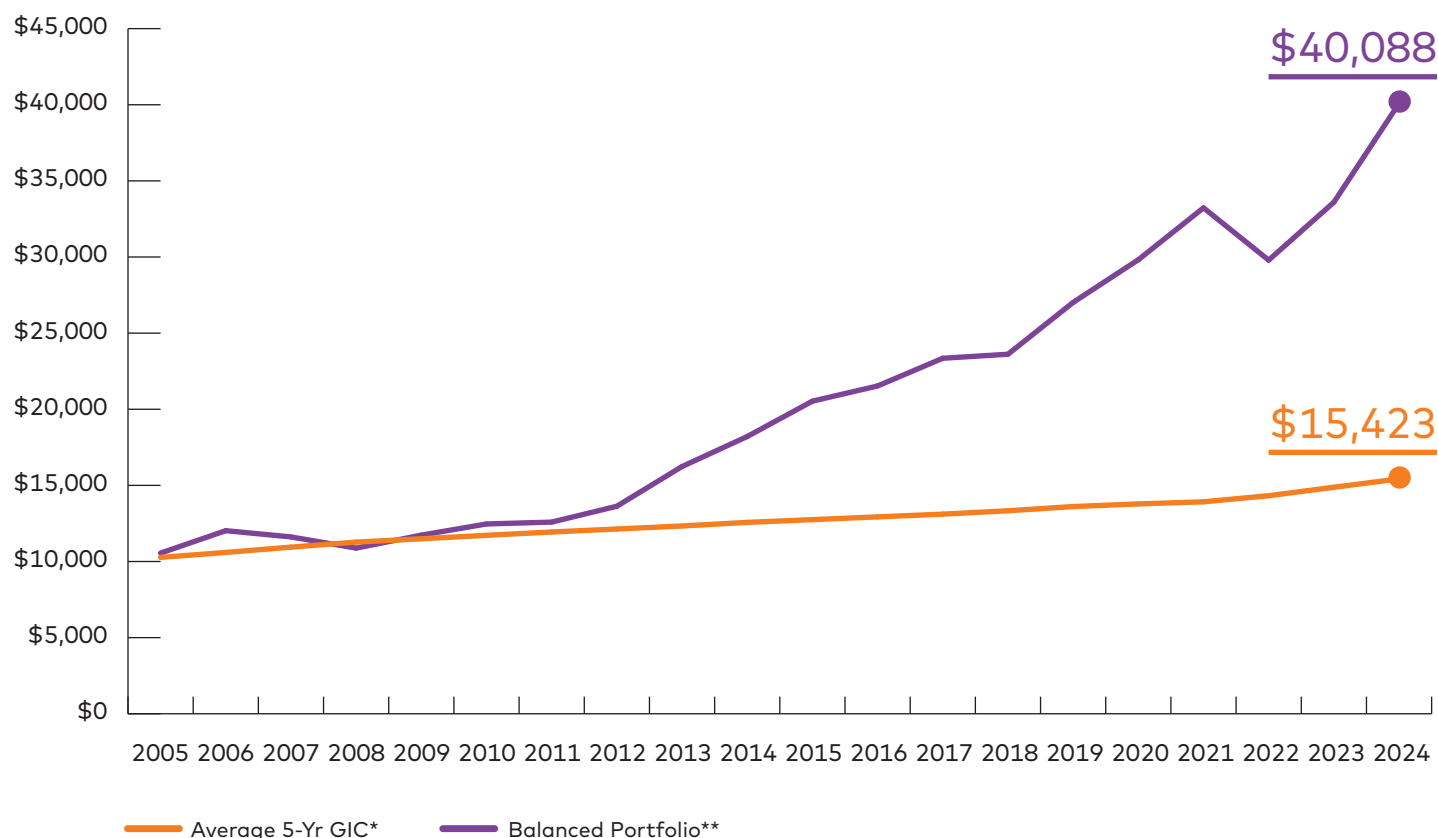
	Inflation	1.0%	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%
Tax Rate									
20%		1.25%	2.50%	3.75%	5.00%	6.25%	7.50%	8.75%	10.00%
22%		1.28%	2.56%	3.85%	5.13%	6.41%	7.69%	8.97%	10.26%
24%		1.32%	2.63%	3.95%	5.26%	6.58%	7.89%	9.21%	10.53%
26%		1.35%	2.70%	4.05%	5.41%	6.76%	8.11%	9.46%	10.81%
28%		1.39%	2.78%	4.17%	5.56%	6.94%	8.33%	9.72%	11.11%
30%		1.43%	2.86%	4.29%	5.71%	7.14%	8.57%	10.00%	11.43%
32%		1.47%	2.94%	4.41%	5.88%	7.35%	8.82%	10.29%	11.76%
34%		1.52%	3.03%	4.55%	6.06%	7.58%	9.09%	10.61%	12.12%
36%		1.56%	3.13%	4.69%	6.25%	7.81%	9.38%	10.94%	12.50%
38%		1.61%	3.23%	4.84%	6.45%	8.06%	9.68%	11.29%	12.90%
40%		1.67%	3.33%	5.00%	6.67%	8.33%	10.00%	11.67%	13.33%

For example, if the inflation rate is **4.0%** and your tax rate is **30%**, you'd need a GIC paying **5.71%** annually to break even.

Balanced vs. GICs

So how can you stay ahead of inflation? Although the returns of a yield-oriented mutual fund portfolio aren't guaranteed, the returns have been considerably stronger than those of GICs over longer periods of time.

Growth of \$10,000 Investment on January 1, 2005 until December 31, 2024



Source: AGF Investments. December 31, 2024. For illustrative purposes only. You cannot invest directly in an index. All information in Canadian dollars unless otherwise stated. Past performance is not indicative of future results. The rate of return shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the investment fund or returns on investment in the investment fund. * Five-year average GIC Rate Index. ** **The hypothetical portfolio weights and rates of return are for illustrative purposes only and should not be interpreted as a guarantee of future rates of return.** The hypothetical portfolio is based on predetermined investments in the following indexes with the portfolio weights rebalanced monthly. The hypothetical portfolio is comprised of 30% Bloomberg Global Aggregate Bond Index, 10% Bloomberg Canada Aggregate Bond Index, 45% MSCI World Index, 15% S&P/TSX Composite Index. Any taxes due, trading costs and other fees associated with the portfolios are not included and trading prices and frequency implicit in the hypothetical performance may differ from what may have actually been realized at the time given prevailing market conditions.



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