High-Interest Savings Accounts – they're not all created equal

Managing Your Money

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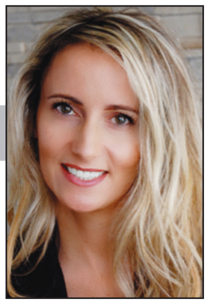

I recently had an interesting banking experience that I wanted to share, hoping it would save you from making the same assumption I did.

At my bank, I had some money in a savings account that is labeled "High-Interest Savings". Since I use "High-Interest Savings" accounts in my day-to-day investment management, I simply assumed that this account at my bank was paying the market rate, currently around 5%. Last week, for some reason, I decided to call the bank and confirm that my assumption was correct, and in fact, it was NOT. I was told by a nice lady at the bank that my "High" Interest Savings account was actually paying 0.5%, and NOT 5%! (She did offer me a promotional rate of 2.25% until the end of November *eye roll*).

> *"My experience taught me is that not all "high" interest savings accounts are created equal and that I shouldn't make assumptions."*

At Richardson Wealth, as part of our investment management, we regularly use High-Interest Savings Accounts (HISAs). We have a unique advantage as we have access to these accounts from all the major banks and more, so we shop around for the best rates. The one we're currently using is paying 5% annual interest. And guess what…it's from my very own bank! Yet, as a direct banking customer of theirs, I was only getting 0.5%! What my experience taught me is that not all "high" interest savings accounts are created equal and that I shouldn't make assumptions. My money has now left the bank and is in their "real" high-interest savings account through my portfolio at Richardson.

A year and a half ago, no one really paid attention to high-interest savings accounts because they were paying less than 1%. Today, as interest rates have climbed, so have the deposits in these particular accounts. HISAs have multiple advantages. First, you'll earn a much higher rate of interest – your money will be making money while being 'parked' for a period of time. Second, funds invested in an HISA are easy to access and can be quickly and easily freed up if you need cash at a moment's notice (unlike GICs). Finally, interest is accrued daily and is normally paid monthly. Many HISAs are fully insured by the Canadian Deposit Insurance Corporation, just like your savings and chequing accounts at the bank (up to certain limits). They have traditionally been a parking spot for short-term funds, and with the volatility and uncertainty in the capital markets, they are being used as a safe haven by many.

As an alternative to High-Interest Savings Accounts, if your time frame is a little longer, there are currently other investment options that have also become more attractive with the rise in interest rates such as flex GICs, market-linked GICs, Principle Protected Notes, and Structured Notes. All of these can provide an increased return along with full or partial protection of your capital. Some of these options are not available through advisors with only a mutual funds license, so take your time to shop around if these options haven't been offered to you.

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Savings account rates are primarily impacted by the Bank of Canada. Historically, their rates have generally remained low, aside from some periods in the 1980's and 90's. In recent years, prior to the interest rate hike of 2022, high-interest savings accounts were a guaranteed financial loss, with inflation and taxes easily eating away at all of the return and more. HISAs offer much more attractive interest rates than those typically earned with a traditional savings account. While savings accounts in Canada at the big five banks generally offer rates ranging from just 0.01% to 0.05%, high-interest accounts are currently offering between 3% and 5% interest. These are some of the highest rates we've ever seen.

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So, if you have funds sitting in a savings account right now, earning little to no interest – reach out to your investment advisor today. Ensure that you're making the most of any money that is sitting idle. And make sure you don't get caught in the trap I was in at your bank. Ask what rate their "high" interest savings account is paying, and don't make assumptions based solely on the name. And finally – ask your advisor what options they have available for Structured Notes if your time frame is a little longer.

Note: For more tips and insights on managing your wealth, follow me on my Facebook page **Richardson Wealth - Ephtimios MacNeil Wealth Management.**

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