

# GICs and GIFs: what's the difference?

In today's investment marketplace, solutions exist that provide various types of guarantees to investors. Two of the more common solutions are guaranteed investment certificates (GICs)\* and Guaranteed Investment Funds (GIFs). These investments have similar sounding names, but are quite different in how they work and in their purpose. **Their differences, however, can complement each other in your portfolio.**



### Guaranteed Investment Certificates (GICs)\*

- Term deposits
- Earn a guaranteed rate of interest
- Protected from market exposure
- May be redeemable prior to maturity



### Guaranteed Investment Funds (GIFs)

- Segregated fund contracts
- Market participation with guarantees that protect principal
- Potential creditor protection
- Estate planning benefits

GICs are a simple and secure investment with no market exposure. You invest for a term and receive a guaranteed interest rate aligned with that investment term. GIFs, also called segregated funds, combine the benefits of mutual funds with the protection and estate planning advantages of an insurance contract. GIFs provide market exposure to help grow your savings. You can achieve growth in both GICs and GIFs, albeit more conservatively with GICs, and both are convertible into income sources at retirement.

| Benefits & features  | GICs   | Sun Life GIFs  |
|--|--|--|
| Market growth potential                                      | No   | Yes  |
| Market risk  | No   | Yes  |
| Liquidity  | Yes <sup>1</sup>   | Yes <sup>2</sup>   |
| Asset allocation portfolios                                  | No   | Yes  |
| Guarantee of principal at maturity                           | Yes – 100%   | Yes – 75%  |
| Guarantee of principal at death                              | Yes – 100%   | Yes – minimum 75% <sup>3</sup>   |
| Ability to lock in market gains through resets               | Not applicable   | Yes <sup>4</sup>   |
| Potential creditor protection in case of personal bankruptcy | No <sup>**</sup>   | Yes, on all registration types provided a preferred beneficiary is named |
| Deposit protection in case of investment company insolvency  | Yes, through the Canada Deposit and Insurance Corporation (CDIC)<br>Visit <a href="http://cdic.ca">cdic.ca</a> | Yes, through Assuris<br>Visit <a href="http://assuris.ca">assuris.ca</a> |
| Ability to earn tax efficient income                         | No   | Yes  |
| Ongoing fees   | No   | Yes, in the form of Management Expense Ratios (MERs)                     |

\*In this document, "guaranteed investment certificates (GICs)" refers to GIC products that can be purchased from most financial institutions. These should not be confused with accumulation annuities, which are contracts only offered by insurance companies.

\*\*There may be creditor protection for RRSPs in bankruptcy situations and under some provincial legislation for other creditor situations. Non-registered GICs do not have specific protection from creditors.

**Consider adding GICs or GIFs to your portfolio.** Your advisor can recommend the best percentage for you according to your desire for growth, risk tolerance, and time horizon until retirement.

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## Complementary investments

The market risk that GIFs bring to a portfolio is offset by the protective guarantees that they provide. These guarantees are a minimum of 75% of the principal or the market value in the investment – whichever is higher – on either maturity or death<sup>2</sup>. GICs in your portfolio can also offset market risk because they are not exposed to volatility and they earn reliable interest. Further, shorter term GICs, for example those less than one year, can bring an element of liquidity to your portfolio. Otherwise, withdrawals from GIFs for specific purchases or emergencies will diminish the values of the maturity and death benefit guarantees.

| Growth potential and tax advantages            | GICs                | Sun GIF Solutions Sun Life Granite Balanced Investment Series A |
|--|---------------------|---|
| Deposit  | \$100,000           | \$100,000   |
| Annual rate of return <sup>5</sup>             | 1.22%               | 4.63%   |
| Interest earned                                | \$1,220.00          | \$0.00  |
| Dividends earned <sup>6</sup>                  | \$0.00              | \$0.00  |
| Capital gains realized <sup>6,7</sup>          | \$0.00              | \$1,242.69  |
| Total investment value before tax <sup>7</sup> | \$101,220.00        | \$104,632.00  |
| Total investment income                        | \$1,220.00          | \$4,632.00  |
| After tax investment income <sup>8,9</sup>     | \$671.00            | \$4,352.40  |
| <b>After tax investment value</b>              | <b>\$100,671.00</b> | <b>\$104,352.40</b>   |

This information is for illustration purposes only. Please consult with a tax professional for further advice.

When it comes to building a portfolio to meet your needs and manage risk, both GICs and GIFs, with their complementary benefits, can help.

<sup>1</sup>For redeemable GICs, a market value adjustment may apply.

<sup>2</sup>Withdrawals reduce the value of contract guarantees.

<sup>3</sup>Assumes you choose Sun GIF Solutions Investment Series with its 75% death benefit guarantee. Alternatively, Sun GIF Solutions Estate Series provides a 100% death benefit guarantee.

<sup>4</sup>Assumes you choose Sun GIF Solutions Estate Series or Sun Lifetime Advantage GIF.

<sup>5</sup>Average 1-year-term GIC rate based on Canada's "big five" banks as of Jan. 8, 2020.

<sup>6</sup>No dividends generated. Based on a capital gains allocation of \$0.15. Assumes initial purchase unit price of \$12.07.

<sup>7</sup>Assumes investments sold/mature after one year.

<sup>8</sup>After adjusting for a capital gains exclusion of 50%.

<sup>9</sup>Assumes a marginal tax rate of 45%.



For more information, speak to your advisor or:

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