Saving vs. Investing: What's the difference?

When it comes to saving and investing, a lot of questions can come up. Like, what are the best ways to save money? Or, if I've saved money, should I invest it? And, is there a difference between saving and investing? Understanding the differences between saving vs. investing and the benefits of each, can help you decide how to better reach your financial goals. You work hard for your money and may wonder how to maximize and grow your funds. In this article, you'll learn about the differences between saving and investing and other important considerations you should keep in mind when assessing what is best for you.

What is saving?

Saving is putting aside money for future goals such as purchasing a car, or the down payment for a house. It can also help provide a cushion in case of an emergency, which can allow you to better deal with the unexpected. Saving is an important and powerful behaviour that anyone at any age can start. However, being disciplined to regularly save usually requires paying close attention to expenses, especially **discretionary expenses**, so there's money available to save with.

One way to save money is through a savings account. **TD's Pre-Authorized Transfer Service** makes saving easier by automatically transferring a set amount of money from your chequing account to your savings account. Through a combination of smarter spending habits and setting aside a set amount regularly, you may be pleasantly surprised at how quickly you can save your money.

Once you are able to find success with the habit of saving, then the question becomes: What to do with the money you are putting aside? Should you be keeping it in a savings account, or should you start thinking about investing your money?

Review our tips on **how to start saving** to get started.

What is investing?

Investing is the process of buying an investment product, typically with the money you have saved up or are saving regularly with the expectation that your money will work to earn even more money over time. The foundation of building wealth is not just to save your money, it's putting your money to work so it grows faster than it would if you just let it sit in a savings account. Investing can give your savings an extra boost to help make your goals easier to attain than just saving alone. In many cases, the growth that can come from investing is a key ingredient to making financial goals achievable.

Investing could be right for you if you are looking to grow your money. Saving for retirement or your children's education may be better suited to investing as reaching these longer-term goals may require the added boost from investments designed to be held over a longer time frame. You can buy investments in a non-registered account or registered plan, like a TFSA or RRSP. Registered plans are often the smarter way to invest as they offer special tax benefits (for those that qualify), which could allow you to grow your money faster than in a non-registered account. Some of the more common investments are **stocks**, **bonds**, GICs and mutual funds.

What are the benefits of investing?

One of the benefits of investing is the potential to earn higher long-term returns. Other potential benefits and reasons to invest include:

- **Keeping pace with inflation:** If you use your money today to buy what you need or want, this same amount of money in the future will usually buy less due to the impact of inflation. Therefore, unless your savings are growing faster than the rate of inflation, your savings will be effectively worth less in the future than they are now. For example: with 2% inflation and a 35% marginal tax rate, you would need to earn a return of 3.08% in order to break even on your investment1. It may be difficult to find a savings account with an interest rate to allow you to break even, especially in a low interest rate environment. When you invest, depending on the investment product selected, there is more potential for your investment to keep up with inflation.
- **Generating income:** Growth may not be your primary objective. For those who are in or nearing retirement, generating a higher regular stream of income might be a priority. Investments, like a mix of stock and bonds, GICs or mutual funds, can seek to provide a level of income that exceeds inflation.
- **Tailored to you:** Investment advice can be tailored to your personal goals and can be aligned with your investment objectives, time horizon and level of risk tolerance. By working with a TD Personal Banker, you can receive personalized advice on suitable investments to help meet your needs today and, in the future, as your goals or financial circumstances change.
- **Starting is easy:** You can start investing right away —there is no need to wait. You can invest a lump sum if you have the money already or you can start by investing small amounts automatically.
- **Automatic investing:** Setting up a regular automatic contribution takes the guesswork out of when to invest. In situations where the value of the investment fluctuates, investing automatically/regularly helps to even out the purchases over time, and may improve the growth potential of investments in the long run, reduce the risk, and take the worry out of 'when to invest' to maximize returns.
- **Preferential tax treatment:** In non-registered accounts, any growth in the form of capital gains and dividend income are normally taxed at a lower rate than interest income. By using your savings to invest in products that generate capital gains and dividends (like stocks and mutual funds), you could be paying a lower tax rate on any growth rather than leaving your savings in a savings account (which generates interest income).

What's the difference between saving and investing?

The key difference is that investing can better help you achieve your long-term financial goals like living the retirement you desire or helping with the costs of a child's post-secondary education by giving you the opportunity to grow your money faster than saving alone. Saving, on the other hand, is the behavior of putting money aside and storing it. Investing has the power to give your savings a boost to be able to reach your financial goals.

To get started, explore our savings and **investing products**.

What types of investments do we offer?

TD has a wide range of investing options to choose from. They can help you achieve your investment objectives so you can live the life you want, not just the life you can afford. Investments include GICs and mutual funds, which can also be held inside registered plans offered by TD.

- **GICs:** A Guaranteed Investment Certificate (GIC) is a deposit that provides a guaranteed rate of return on your investment, making it a safe way to invest your money.
- **Mutual Fund:** A mutual fund is an investment that pools the money of many individual investors and uses it to buy securities such as bonds, stocks, or other investable assets that are selected and managed by a fund manager. Each mutual fund has an investment objective which the fund seeks to achieve to the benefit of the investor. You invest in mutual funds by purchasing units of the fund. Mutual funds values tend to fluctuate and there is no guarantee that you will earn a return on your investment or the total amount you invested will be returned to you. It is recommended that you review the fund facts or prospectus before investing in mutual funds.

Our registered plans include:

- **TFSA:** A Tax-Free Savings Account (TFSA) is a registered plan where you can save or invest up to your individual contribution limit and your earnings are tax-free.
- **RRSP:** A Registered Retirement Savings Plan (RRSP) is a registered plan that lets you build up savings designed for your retirement, while deferring your taxes.
- **Spousal RRSP:** A Spousal RRSP is a registered plan where you contribute money to your spouse's or common-law partner's RRSP, while also deferring taxes.
- **RESP:** A Registered Education Savings Plan (RESP) is a registered plan that helps you save for a child's post-secondary education. RESPs can be a great option, as saving incentives such as grants are offered by the government.
- **RDSP:** A Registered Disability Savings Plan (RDSP) is a special program for Canadians with disabilities and their families to help save for long-term financial needs like future medical costs.
- **RRIF:** A Registered Retirement Income Fund (RRIF) is a retirement income option which gives you the flexibility of deciding how much income you withdraw each year from your retirement savings. A minimum annual amount is set according to the federal government's predetermined schedule. Often, owners of RRSPs roll over the balance from those plans into a RRIF.

A TD Personal Banker can help you assess which registered plans and/or accounts are suitable for you.

We can help you get started

TD Personal Bankers can help you invest. We'll work with you to understand your goals and develop a plan to help put you on the right course to make them happen.

Explore our registered plans and investing products

Investing doesn't have to be complicated. From growing your money to planning for the future, we have a range of investment options for you.

Explore our **registered plans and investing products**.

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[1] Break-even return calculation: Inflation / (1 – Marginal Tax Rate) = 2.00% / (1 – 35%) = 3.08%

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