

**Pro-Text**  
**by Darren Reith**

**Borrowing to Fund your RRSP**

There are many schools of thought with regard to funding your Registered Retirement Savings Plan. One is the dollar cost averaging method; making your contribution weekly, or monthly into a plan. Another is to make that one single contribution at year-end, once you have established your tax position. For many families today, both options are a challenge given the many unexpected financial demands that come-up throughout the year. For this reason you may want to consider a third option: the RRSP loan.

Many institutions offer credit facilities for RRSP loans with favourable and flexible repayment terms. An RRSP loan can be utilized to top-up your monthly contribution to reduce your unused contribution room. Your unused or available contribution is an amount shown on your federal tax notice. This sum represents the cumulative amount that you have not contributed to your RRSP over previous years. This happens when you do not make your maximum allowable contribution each year.

You are not obligated to make your maximum allowable contribution each year. In fact, for tax planning purposes some choose purposely not too. Some save their allowable contribution room for future years when they have higher incomes and a need for tax reduction. Of course, this can be negatively offset by the fact that the earlier you invest, the better the end result because your money has more years to grow. In such instances you can defer your contribution and make it in future years, in whole or in part, until the age of 69.

Taking an RRSP loan to reduce or eliminate your cumulative available contribution has definite advantages. For instance, by placing more money into your RRSP right away you will start earning tax-sheltered income and produce a bigger retirement nest egg. Further, it immediately reduces the amount of income tax you pay; and tax refunds from RRSP contributions can be used to repay the loan and or other higher interest rate debt.

Consider the following scenarios:

Assume \$10,000 of available contribution room to your RRSP for which you take a loan to fund.

Your contribution results in a \$4,000 tax refund (assume a 40% tax bracket). This refund is used to pay down the \$10,000 loan which leaves you owing only \$6,000. Over the next twelve (12) months you can repay this balance with interest at approximately \$516. per month and receive an excellent return over the long term because of the large lump sum investment made.

In this scenario, assume your maximum allowable RRSP contribution is \$4,000.00 and your marginal tax rate is 40%. You have saved \$2,000 over the past year which you invest in your RRSP. You then have two (2) options:

1. Contribute the \$2,000 and get an \$800 income tax refund that can be invested, therefore having a total of \$2,800 invested; or,

2. Take an RRSP loan for an additional \$2,000 and contribute the maximum of \$4,000 to your RRSP. The result: you have doubled your refund to \$1,600 and can use this to repay a significant portion of the loan leaving a loan balance of only \$400. You will benefit over the long term by having invested \$4,000 rather than only \$2,800.00. This same additional investment can make a significant difference in the size of your nest egg at retirement.

If you are like many Canadians and do not have a lump sum of cash to invest in your RRSP, but can afford a monthly payment, take the RRSP loan for one year for an amount equal to your ideal monthly contribution and apply your income tax refund to your loan to reduce the payments or pay it back more quickly.

It is never too early or too late to start your investment planning activity. Talk to your financial advisor to find out more about the advantages and obligations of borrowing to invest.

***Borrowing to invest in an RRSP may not be suitable for everyone. You will need the financial means to meet your obligations. In addition, investments held in an RRSP may fluctuate in value. You should be aware that regardless of the performance or value of any investment held in your RRSP, you will be required to meet loan obligations in full. This is not advice or recommendation on any specific investment style. This information appears for general information purposes only. Consult your personal investment planner and accountant before making any investment decision.***

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