

## Should I borrow to contribute to my RRSP?

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Who isn't cash-strapped these days? Whether it's the mortgage, saving for a child's post-secondary education, or simply an unexpected repair to the car or house, there's no shortage of things competing for our hard-earned dough. All too often, saving for retirement can end up being pushed aside.

Many Canadians struggle with making regular contributions to their Registered Retirement Savings Plans (RRSPs). They have no shortage of RRSP contribution room, just not the funds.

But there's a way you can play catch-up by borrowing to invest. In today's low-interest environment, an RRSP loan can work well, provided you pay it off quickly. And the beauty of an RRSP loan is that if it reduces your tax bill and results in a refund from the Canada Revenue Agency, you can then use those funds to partially or entirely repay the debt.

Whether you're a prime candidate for an RRSP loan depends on your age (20s and 30s are best), your tax bracket (the higher, the better) and your ability to pay down debt.



Let's look at a practical example of how an RRSP loan works. Caden is 35 years old and has a marginal tax rate of 40%. He has earmarked \$4,500 to contribute to his RRSP. If Caden borrows \$3,000 to add to his intended \$4,500 contribution, not only does he have a bigger RRSP contribution, but he gets a refund of the same amount as the loan (\$3,000), allowing him to pay it off right away with minimal interest. A bigger RRSP contribution also means more money to compound over a 30-year period until retirement, so, a larger portfolio in general.

Think it may take you a while to pay off the loan? Financial experts recommend investing for the long-term (10 or more years) in products (usually equities) that achieve a higher rate of return over time than the interest rate of the loan. Otherwise, the interest on the loan could outpace what you make on your investments.

There's no question an RRSP loan is not the right solution for everyone. For some, a better solution than taking on additional debt is to set up an automatic RRSP contribution plan. This will ensure a portion of your pay each month is immediately contributed to your RRSP. While it won't enable you to max out your RRSP contribution this year, it will enable you to gradually build up your RRSP without going into debt.

If you think borrowing to contribute to an RRSP might be right for you, be sure to discuss your options with a financial professional before committing to a loan.

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***We can certainly help you to determine whether a loan to make an RRSP contribution is in your best interest and how best to structure the loan and make that investment  
Be sure to call us to evaluate if this strategy is right for you!***