

RSPs: To Borrow or Not to Borrow



When is it a Smart Move to Borrow Money to Contribute to Your RSP?

Perhaps right now, if you've got the room to contribute. Many advisors (via a lending institution) are offering RSP loans as low as prime. Today's low borrowing rates offer exceptional value for investors who want to get the most out of the benefits offered by RSPs – potential for compounded growth in a tax-deferred investment vehicle – but don't have the cash readily available.

Thousands of Reasons to Contribute

The effect of missing a single \$1,000 contribution at age 29 can be a \$21,725 reduction in the net value of your RSP by the time you reach age 69 (based on a 8% annual rate of return and assuming you do not carry forward this contribution to a future year).

Hang on to Your Taxes

As well as potential future gains, contributing as much as you can to your RSP annually helps to reduce your

income tax in that year and put the money back in your hands – for investing or to help repay your RSP loan.

The following chart illustrates how a tax refund from your RSP contribution can lower the cost of borrowing money significantly.

The current low interest rates provide an exceptional opportunity to maximize your RSP contributions at a low cost. Speak to your financial advisor to see if this is the right opportunity for you.

The Benefits of Borrowing \$5,000

(Based on 1 year loan at 4.5%¹)

Borrow \$5,000 and contribute proceeds to RSP	\$5,000
Return on RSP Investment for 1 year at 8%	\$400
Repay loan over 12 months at \$427 per month	\$5,124
Net gain on investment	\$276
Rebate from income tax	\$2,000
NET BENEFIT	\$2,276

¹RSP borrowing options vary based on amount borrowed and amortization, so you should speak to your financial advisor about your specific needs.

Note: This example assumes that your RSP earns 8% interest compounded annually, you have a marginal tax rate of 40%, the loan interest rate is 4.5% compounded monthly, and the loan is repaid in 12 equal monthly installments. Chart is for illustrative purposes only.

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