

It pays to borrow to save for retirement

By making a large RRSP contribution with borrowed funds you will save taxes now and create a large retirement fund for your future.

Consider this scenario:

You have \$1,000 to contribute this year, but would like to contribute \$4,000. By borrowing the \$3,000 you need, you will receive the following benefits:

Loan amount	\$3,000.00
First year's return on \$3,000 RRSP invested at 5%	\$150.00
Tax deduction in 29.98% tax bracket on \$3,000	\$899.40
Total	\$4,049.40
Less: Loan and interest to be repaid (monthly payments of \$254 based on 1 year term loan at 3%)	\$3,049.00
Net benefit	\$1,000.40

You will benefit in the long term as well by taking advantage of compound interest on a larger amount invested.

Assuming a rate of return of 5%, your \$1,000 investment would grow to \$4,322. But if you were to borrow the additional \$3,000 for a total of \$4,000, your investment would grow to \$17,288.

Please see figure 1.

Figure 1 • Growth over time

