Equitable™

Borrowing money to save money

Have you ever considered borrowing money to contribute to your Registered Retirement Savings Plan (RRSP)? No? Well consider this. Unlike credit card debt, RRSP loans are considered "good debt". Investment loans and mortgages fall into the "good debt" category because they help to increase your net worth. By taking an RRSP loan you can invest right away and take advantage of long-term compounding growth, as well as an immediate tax refund. The tax refund that you receive from your RRSP contribution is often more than the interest that you will pay on the loan.

Here is how it works. Kwame is 40 years old, with an income of $55,000. He takes an RRSP loan to be paid off in one year. The loan requires him to pay $586/month for one year. At a 4% interest rate, Kwame would have only paid approximately $150 of interest on the loan. For a total cost of approximately $7,035 ($6,885 + $150), Kwame invested $10,000 into his RRSP.

Loan Amount	$10,000.00
Income tax reduction: (31.15% marginal tax rate)	$3,115.00
Cost of Investment:	$6,885.00
Monthly Payment*:	$586.26

*Assuming a 4% interest rate, and that the tax refund was immediately applied to the loan.

Fast-forward 25 years to age 65 and assuming an average annual return of 6%, Kwame's $10,000 contribution that cost $7,035, is now worth $42,919!

Equitable® has partnered with B2B Bank to provide RRSP loans at competitive rates. Talk to your advisor today and learn how an Equitable RRSPs can be incorporated into your personalized financial plan.

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