

NEWS RELEASE

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# Conservative Leverage Even Better Than RRSPs

## New Cut in Capital Gains Taxes Makes Strategy Better

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While RRSPs are one of the best investment strategies, most **Canadians can produce even *more* retirement income by borrowing to invest outside of RRSPs.**

"Now that only 50% of capital gains are taxable, the poorly understood approach of leveraging or borrowing to invest can be an even better retirement savings strategy than RRSPs," says **Talbot Stevens**, financial educator and author of the **new bestselling booklet *Dispelling the Myths of Borrowing to Invest***.

"Leveraging has always been used by the wealthy", says Stevens. "Now, more middle-income Canadians are starting to realize how tax-effective it can be to borrow to invest in equity investments outside of RRSPs"

When you borrow to invest outside of RRSPs, the interest expense is generally tax-deductible, and produces the same tax savings as an RRSP contribution. RRSP dollars are 100% taxable when withdrawn. But when you borrow for equity investments, much of your returns are in the form of capital gains which are only 50% taxable.

Stevens points out that an overlooked benefit of equity funds is that the tax on capital gains is deferred until you, or your fund manager, sells. This means that a tax-efficient equity fund can provide almost the same tax deferral benefit as RRSPs. When you combine this with the fact that the interest expense produces the same tax deduction as an RRSP contribution and that only half of the gains are taxable, it is easy to see how leverage can be better.

Stevens provides an example using conservative assumptions to illustrate. Both Randy and Linda are 45 year-old baby boomers in the 40% tax bracket and invest \$4,000 a year, a little less than the average RRSP contribution. They both invest for 20 years, averaging

9% equity fund returns and will retire in the 40% tax bracket.

Linda, the leveraged investor, uses her cashflow to pay 9% interest on a \$44,444 investment loan. Both want their retirement income to last 20 years, from age 65 to 85.

Using RRSPs, Randy, produces an annual retirement income of \$13,450 after-tax from age 65 to 85. Using leverage, Linda ends up with a 20-year after-tax income of \$14,490. In this case, leveraging produces an extra \$1,000 a year during her retirement, after-tax. This is assuming conservative 9% annual returns that just match the cost of borrowing, while long-term global equity fund returns have averaged closer to 12%.

If investment returns are 12%, the **leveraged investor ends up with 37% more after-tax retirement income than produced with RRSPs**. Linda has an after-tax income of \$31,680 per year, while Randy has \$23,150.

With the **use of margin accounts at record levels**, Talbot Stevens' **booklet is timely** for investors trying to understand when it makes sense to borrow outside of RRSPs, or to use a loan to catch-up on unused RRSP contribution room.

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Talbot Stevens is a financial educator, speaker and author. For more information, visit [www.TalbotStevens.com](http://www.TalbotStevens.com).