

# MAXIMIZING DISCRETIONARY RRIF INCOME... by borrowing to invest



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If you are an investor with discretionary RRIF income, you can put that income to good use. By borrowing to invest, you not only achieve tax savings each year, but gain the potential to significantly increase the value of your non-registered investment portfolio over the long term.

Perhaps you are someone with additional sources of income, who does not need the money from your Registered Retirement Income Fund (RRIF) payments for day-to-day living expenses. Instead, your RRIF payments are actually re-invested into a separately held non-registered investment.

If this sounds like you, then you are probably in a higher tax bracket, making quarterly tax installments – and looking for ways to reduce taxes.

A unique strategy tailored to people like you is available. The strategy involves creating a tax deduction using discretionary RRIF income to pay the interest on funds borrowed to invest. The interest payments are generally tax deductible, and instead of investing after tax RRIF income each year, a large lump sum amount gets working right away.

## **AN IN-DEPTH LOOK AT THE ISSUE... AND THE OPPORTUNITIES**

Individuals who are reinvesting their after-tax, discretionary RRIF income each year because they don't need the money to meet their living and other discretionary expenses can put that revenue stream to work. Instead of building their non-registered investment with their RRIF payments, they can consider borrowing to invest.

## **HERE'S HOW IT WORKS**

- 1. You apply for an investment loan.**
- 2. The amount of the loan is applied in a lump sum to purchase non-registered investments.**
- 3. The loan interest is paid with the discretionary RRIF payments being received.**
- 4. The loan interest paid becomes a deduction on your tax return.\***

As you can see, it's very straightforward – and it can make a big difference to your bottom line.

\* Actual tax deductibility of loan interest depends upon a number of factors with the Income Tax Act providing the framework for determining deductibility. Results for Quebec residents may differ due to the different interest deductibility rules. Readers should consult their tax and legal advisors with respect to their particular circumstances.

# How borrowing to invest can work

Harry is a wealthy retiree looking for an opportunity to reduce his taxes. He has discretionary RRIF income of \$14,000 a year. Here's how his situation looks, using this strategy to maximize discretionary RRIF income by borrowing to invest:

## ASSUMPTIONS\*

Discretionary RRIF Income	\$14,000
Annual rate of return	7%
Loan interest	7%
Tax on RRIF withdrawals	46%
Tax rate on investment earnings	30%
Taxable percentage of investment returns	25%

## DETERMINING THE AMOUNT OF THE LOAN

Harry's RRIF minimum amount will carry an interest-only loan of \$200,000, calculated as follows:

$$\frac{\text{Annual RRIF income}}{\text{Assumed interest rate}} = \frac{\$14,000}{0.07} = \text{The amount of an interest-only loan Harry can carry.}$$

## HOW THE SITUATION STACKS UP

The discretionary RRIF income amount of \$14,000 is used to cover all borrowing expenses, instead of being invested after-tax on a yearly basis. Harry gains the tax deductibility of the interest and a lump sum amount (\$200,000) is immediately invested.

## WHAT IT LOOKS LIKE AT YEAR 10

At year 10, the after-tax value of the \$200,000 Harry invested (with the loan repaid) is **\$141,996**

**VS.**

**\$96,994** which would be the after-tax value of the regular deposits if Harry had simply invested his discretionary RRIF income each year.

Harry increased his net worth by \$45,002 by having a larger lump sum invested over the 10 years, instead of investing the after-tax discretionary RRIF income on an annual basis. After taxes are paid on the annual taxable distributions in the leveraged account, the interest deductions totaling \$140,000 over 10 years have reduced his taxes payable by \$49,893.

\*For illustration purposes only.

## INVESTMENT OPTIONS WITH MANULIFE INVESTMENTS

**Manulife and its subsidiaries provide a range of investments and services for retired investors:**

**Manulife Mutual Funds** For those looking to build wealth, Manulife Mutual Funds can provide an ideal solution. Our funds offer you the growth potential of a diversified pool of mutual funds, managed by some of the world's most respected money managers from North America and around the world.

**Manulife Segregated Funds** combine the growth potential offered by a broad range of investment funds, with unique wealth protection features. Through Manulife Segregated Funds, investors can help limit their exposure to risk through death and maturity guarantees, potential creditor protection features, and the estate planning benefits – all from a single investment.

For conservative investors looking to grow their wealth but who are also concerned about minimizing risk, Manulife Segregated Funds can provide an ideal solution.

**GIF Select features IncomePlus** - the first Guaranteed Minimum Withdrawal Benefit available in Canada. IncomePlus can provide predictable, sustainable and potentially increasing income to help investors achieve the retirement lifestyle they want.

**The 75 Series** available within GIF Select can provide younger investors with a low cost option to help grow their wealth. In addition to low MERs, the 75 Series offers potential protection from creditors as well as estate planning benefits.

As investors move closer to retirement, they have the ability to switch from the 75 Series into the IncomePlus Series.



## FIND OUT MORE

With 30 years of experience in retirement planning and wealth accumulation strategies, Louise Guthrie leads the Manulife Investments Tax and Regulatory Services (TRS) team – a group of accountants, lawyers and other specialists skilled in proactively identifying opportunities for clients based on changing regulatory environments and the market.

## INVESTMENT LOAN OPTIONS WITH MANULIFE BANK

**Manulife Bank Investment Loans** allow your clients to make a large initial investment contribution and benefit from the potential for compound growth and interest deductibility. These loans are available for a variety of Manulife Mutual Fund accounts and Segregated Fund contracts, and offer attractive options such as 100% financing, no margin-calls, interest-only payments and a one-step application process.

## IDEAL CANDIDATES

Investors who:

- Don't need their RRIF payments for day-to-day living expenses or to fund their leisure activities such as travel during their retirement.

It's important to remember that this strategy may not be appropriate for someone with a very low risk tolerance.

## TAKE ACTION

Consider:

- Adding a leverage loan to the investment plan to potentially leverage wealth accumulation, and
- Adding a dollar-for-dollar deduction from income to reduce taxes.

**For more information please contact your advisor  
or our Client Services Teams:**

MANULIFE MUTUAL FUNDS 1 888 588 7999

MANULIFE SEGREGATED FUNDS 1 888 MANULIFE (626 8543)

[www.manulife.ca/trs](http://www.manulife.ca/trs)

**For information regarding Investment loans contact:**

MANULIFE BANK OF CANADA 1 800 567 9170

Borrowing to invest is may be appropriate only for investors with a higher risk tolerance. You should be fully aware of the risks and benefits associated with investment loans since losses as well as gains may be magnified. Preferred candidates are those willing to invest for the long term and not averse to increased risk. The value of your investment will vary and is not guaranteed, however you must meet the loan and income tax obligations and repay the loan in full. Please ensure you read the terms of the loan agreement and the investment details for important information. Manulife Bank of Canada solely acts in the capacity of lender and loan administrator, and does not provide investment advice of any nature to individuals or Advisors. The Dealer and Advisor are responsible for determining the appropriateness of investments for their clients and informing them of the risks associated with borrowing to invest. Leverage loans are offered through Manulife Bank.

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Manulife Investments is the brand name identifying the personal wealth management lines of business offered by Manulife Financial and its subsidiaries in Canada. As one of Canada's largest integrated financial services providers, Manulife Investments offers a variety of products and services including: segregated funds, mutual funds, principal protected notes, annuities and guaranteed interest contracts.

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