

Invest equity in your home to build retirement nest egg

BY ANNE STARRET, CA
Special to The Tanner

No matter how you look at it, most people have only two ways of earning income.

Working for your money is one way. And — as any chartered accountant will tell you — having your money work for you is the other.

In today's tough times, a lot of people are having a hard time just getting by. And since we're all getting older — and with retirement looming closer by the day — it's even more important to use both sources.

This is especially true if you don't have a company pension plan and will be relying largely on Canada Pension and Old Age Security. And it's anybody's guess how much longer they'll be around. So this puts even more emphasis on the importance of personal savings.

The earlier you start to make provisions by accumulating some funds, the better.

If you need a quick example of how important this is, take the case of a 20-year-old saving \$50 a month (say at 10 per cent) for 40 years. This adds up to almost \$300,000.

By contrast, a 50-year-old would have to put away \$1,500 a month to wind up with the same \$300,000. Quite a difference.

But where the 50-year-old has the edge is that he, or she, probably has owned a home for the past 20 years or so. If this is the case, then the equity built up in that home is substantial — probably two or three times the original cost.

But that equity isn't the slightest bit of use unless you put it to work for you. And how do you do that? By borrowing on it.

Just suppose your equity has increased to the point where you could borrow, say, \$30,000 against it. Reasonable enough. So borrow the \$30,000 — and invest it.

Admittedly you'll have to pay interest on that money. But here's the advantage. The interest you pay becomes tax deductible since the money is being used for investment. (Revenue Canada says so.)

So, where does that leave you? Let's say your loan costs you 10 per cent — \$3,000 a year interest. Now, suppose that \$30,000 investment pays eight per cent interest a year, on which you'd normally have to pay tax. By the time you claim your allowable deduction you'll find that your loan is costing you next to nothing. Not a bad deal.

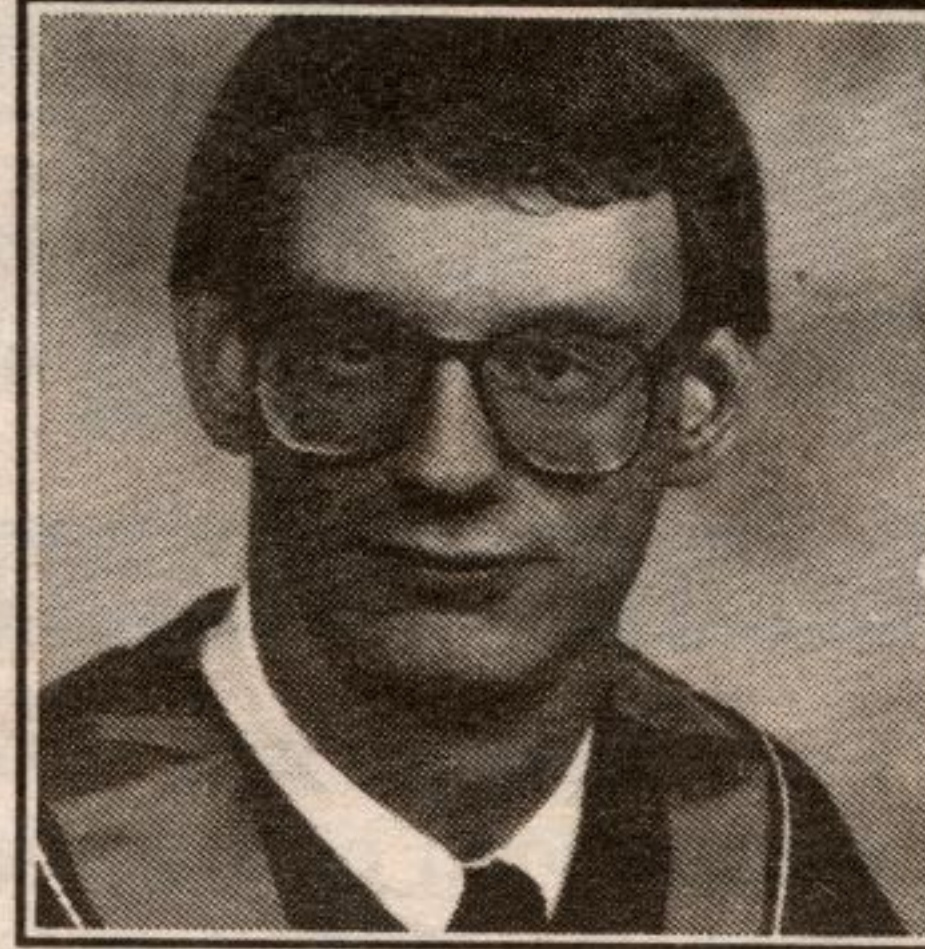
Meanwhile your investment

goes on earning money for you, which goes to build up your retirement nest egg. In a sense, you might say that the government is helping your efforts along.

Sure, you'll eventually have to repay the \$30,000. But if you're looking at five or 10 years down the road, the equity in your investment will most likely have increased by at least as much, and you may not have to pay tax on the capital gain.

So you're getting the best of both worlds.

Anne Starret works with Starret Starret & MacDonald.



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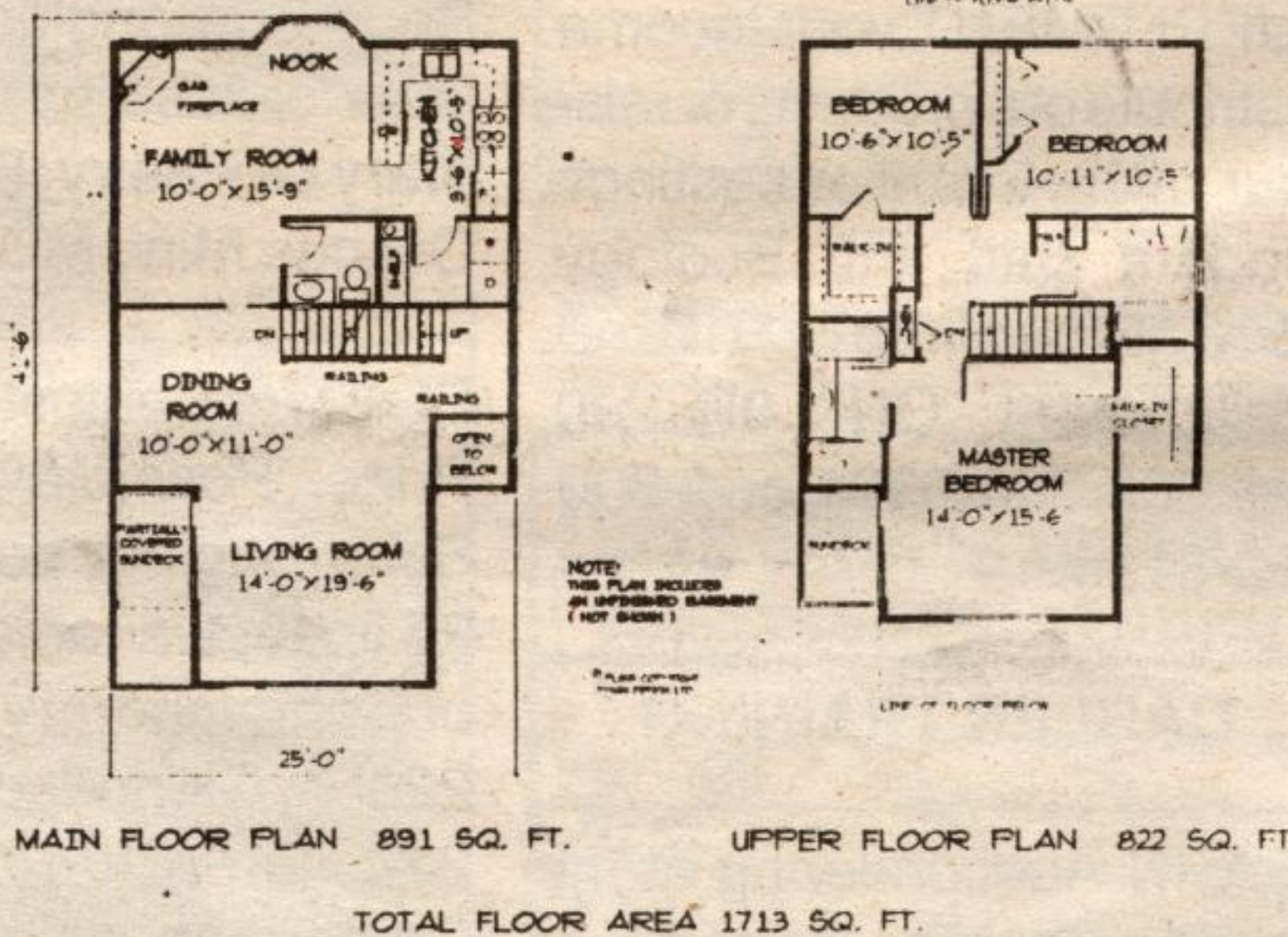
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