SEARCH BY TYPE OF CARD

- Best Canadian Credit Cards
- Balance Transfer
- Cash Back
- Instant Approval
- Low Interest
- Rewards
- Auto/Gas
- Airline
- Business
- Student
- U.S. Dollar

SEARCH BY CREDIT QUALITY

- Excellent Credit
- Good Credit
- Fair Credit
- Bad Credit
- No Credit History

Canadian Credit Cards > Credit Card News > Refilling your retirement cash after using Home Buyers' Plan

Refilling your retirement cash after using Home Buyers' Plan

By Carmen Chai

The federal government's Home Buyers' Plan (HBP) can help cash-strapped first-time homebuyers realize their dream of owning a house. But you need to understand how the program -- which is essentially a loan from your retirement savings -- works to get the most from it.

Under the HBP, a first-time homebuyer may withdraw up to $25,000 from his or her registered retirement savings plan (RRSP) to apply toward a new house. But you must pay the money back over time. "It's taking a loan, interest-free, from yourself, but at the sacrifice of your retirement savings," says Mike Gomes, a certified financial planner at Toronto-based Ironshield.

It can be a great option -- as long as you understand what you're committing to. As a first-time homebuyer, you're already navigating through a new mortgage, property taxes and furnishing a new place. With this option, you'll also have to replenish your RRSP at a steady rate or have the amount due counted as income for tax purposes. Depending on your tax bracket, you could be paying about 15 per cent tax on the missed payment if you're making less than $44,000 right up to 29 per cent if you're making more than $138,000.

SEARCH BY BANK OR ISSUER

- American Express Canada
- BMO Bank of Montreal
- Capital One Canada
- Chase®
- CIBC
- MBNA Canada
- Scotiabank

NEWS & ADVICE

- Credit Card News
- Credit Card Blog

INFORMATION CENTER

- Loan Calculator
- Credit Card FAQ
- Glossary
- Canadian Credit Bureaus
- Contact Us

How to play by the rules

The HBP is a particularly attractive program for couples. If you and your partner are both first-time homebuyers, you can withdraw a combined $50,000 from your RRSPs. Gomes says some couples shuffle money to make sure that both their accounts have the $25,000. For instance, if one partner earns a higher income, he or she can pour money into the other partner's retirement savings so both can apply it to the down payment.

Jason Heath, a certified financial planner and managing director of Objective Financial Partners Inc., notes you'll need to do some planning to use the HBP no matter what, since the RRSP contributions must be in the account for at least 90 days before you can withdraw it.

He also suggests that your retirement savings be kept in conservative investments if you foresee yourself withdrawing the cash to apply to your home. You wouldn't want to see a dip in your savings right before withdrawing the funds for your house.

Keep in mind, you don't need to withdraw the entire $25,000. If you have almost enough for a down payment but you need to top it off, you can borrow another $5,000 or $10,000 from your retirement savings, Heath notes. And if you already have savings for a down payment, you could be better off leaving your RRSPs untouched.

Paying yourself back

After you move into your home, you have a grace year before you have to start repaying the $25,000 over the course of 15 years. This amounts to $1,667 in repayments annually until you have your $25,000 tucked away in your RRSP again.

"Basically, you need to repay 1/15 annually for 15 years, and if you don't make a repayment, the annual amount is added to your income for the year and you lose the RRSP contribution room," Heath explains.

Your RRSP contribution room is based on your previous year's income and it's stated on your latest notice of assessment. This is how much you can pour into your retirement savings while reaping the benefit of a tax break. Typically, it's 18 per cent of your earned income from the previous year.

Even if you declare bankruptcy, you're still on the hook to make repayments to your RRSPs, the government says. "It's not uncommon to see people who [can't make the payment]," Heath says.

The key is to make it one of your fixed expenses, alongside your mortgage, insurance and property taxes, Gomes suggests.

Make it an automated payment -- it could be a monthly $139, or an annual lump sum. "If you were already in the habit of putting money aside for this account, you might not have to make drastic changes," Gomes notes.

While it's important to make retirement savings a priority, it's not the end of the world if you can't repay the money you borrowed from yourself. In some cases, it might even be beneficial not to pour the money into your RRSP if the money could be better put to use with making ends meet.

"If you're having a low income year, say you lost your job or you're on a maternity leave, it might make sense to have the annual income added versus repaying the cash," Gomes says. "$1,667 is not going to affect your taxable income that year if you take the hit."

See related: Are you wading into house-poor territory?, Just because you can get a big mortgage, should you?

Published: March 10, 2015