



Should You Invest or Pay Off Your Mortgage Early? DLC

One of the most popular personal finance questions asked today is whether or not it is best to pay off your mortgage early or to invest your money instead and hope for a higher return rate. With the varying opinions out there on personal finance, it is often hard to determine which option is best for your own unique situation. While this can be a tough decision it is one which you can make if you take the time to balance your options and consider the pros and cons of each option thoroughly.

Generally, most people have the goal of paying off their mortgage as soon as possible if they plan to stay in their home through their retirement years. By paying off their home mortgage early they will be left with only property taxes to pay as they age and their income becomes lower and/or fixed. This can be a great goal to have if you are nearing retirement age or on a quest to become debt free early in your life. However, this is not always the best option if you are a long ways from retirement age.

If you have a very low interest rate on your mortgage, and you can invest your extra money into investment vehicles which will pay a higher interest rate than your mortgage, it makes sense to consider investing your extra capital rather than paying down your mortgage early. By investing in RRSPs while you are still young, you will realize a lot of compounding interest as the years pass. This return on your money can far surpass the savings you can realize simply by prepaying your mortgage.

Over your lifetime you have only a certain amount of money to work with. How you allocate your money, and what you choose to do with it, will result in your overall net worth as you get older. People have been debating the mortgage payoff versus RRSP savings argument for many years. In times where the interest rates are very low, then it makes sense to pay off your mortgage early. However, in times where interest rates are very high you are likely better off investing your money and letting it grow, while paying the minimum you have to on your mortgage each month.

Once you max out your RRSP contributions for the year, then you are in a position where any more investments that you make may have tax consequences. This should always be looked at more closely when you are considering keeping your mortgage and investing your money elsewhere.

One of the biggest myths in Canadian society today is that wealthy people do not have mortgages on their homes. This just simply is false. Because mortgage interest rates have

been very low, many wealthy people are carrying large mortgages and using the money to invest elsewhere where it will return them a higher rate of interest earnings.

If you are looking at the option of prepaying your mortgage rather than investing your capital elsewhere, make sure to take the time and run the numbers to see if it makes financial sense or not. You may find that paying off your mortgage early actually loses you money over the longer term.