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"Should I Pay Off My Mortgage Early?"

It depends. Not long ago, most financial advisors would have said flatly, "Don't do it. Keep your mortgage interest tax deduction, and invest your excess cash." But, today maybe this simple question has a not so simple answer.

Your stage in life, cash flow, income, mortgage interest rate, and current saving strategy all come into play when figuring out whether or not you should put a few hundred dollars more per month toward your mortgage, or even pay it off with a lump sum. Here's some food for thought . . .

- **How Many People Have Mortgages?** According to the U.S. Census Bureau about 2/3rds of all homeowners still have a mortgage. But almost 57% of homeowners over 60 own their homes mortgage-free, and 72% of owners over 65 have no mortgage (Bureau of Labor Statistics).
- **Lower Mortgage Rates Are *Less* Compelling:** Let's say your mortgage interest rate is 4% and that your income tax bracket is 28%. Since you can deduct mortgage interest, your real after-tax mortgage rate is closer to 2.9%. Admittedly, this is simplistic . . . but, might you be better off investing to try to earn more than 2.9%?
- **Lower Investment Returns Are *More* Compelling:** Many investors have had very modest returns over the last two years, and are still skittish after 2008-2009. Using the example above, would you rather have the "guaranteed" 2.9% savings (by eliminating those interest payments) or take some risks investing in a volatile market?
- **Get Your Priorities Straight on Paying Debt:** Consumer debt, such as auto loans and credit cards, normally carry much higher interest rates and therefore ought to be paid off before making additional mortgage payments. Why pay off a loan with 4% interest (mortgage) and carry credit card debt at 15%? Plus, consumer debt interest is *not* deductible.
- **Get Your Priorities Straight on Saving:** If you're working, it makes perfect sense to add extra dollars to tax-favored accounts such as IRAs and 401(k)s. Investing here, saves you income taxes (20% or more), and may even get an employer match on what you save. Roth IRAs, which use after tax money but are tax free-thereafter, are also a good idea. Maximize these first, before paying down the mortgage.
- **Being House-Rich, But Cash-Poor:** Paying off your mortgage can give you a profound sense of well-being and peace of mind. There can be an emotional downside though if you haven't saved enough to cover emergencies such as medical bills, or even upkeep on the home . . . let alone having saved enough to cover expenses in retirement.

- **An Interesting Rule of Thumb:** According to financial columnist Rob Russell (Forbes.com, July 2014), homeowners ought to have investment savings that total at least twice the value of their home. Someone with a house worth $400,000 ought to have investments worth at least $800,000.
- **What if Most of Your Money is Tied Up in Your House?** If this is the case, it might be tempting to consider a *reverse mortgage*. You may have heard about these on TV, or from a friend. In a reverse mortgage, you tap your home equity for regular, monthly income. While the program can be federally insured, this is an area that has been rife with abuse, historically, so be certain to do some research…and never use such a program as a vehicle to fund investments. This is a "last resort" to cover immediate and recurring cash flow needs. For more information, check the Consumer Financial Protection Bureau **(http://www.consumerfinance.gov/blog/category/mortgages/reverse-mortgages/)** and "Using Your House *for* Income in Retirement" **(http://crr.bc.edu/special-projects/books/using-your-house-for-income-in-retirement/)** (Center for Retirement Research at Boston College).
- **Downsizing in Retirement?** A Merrill Lynch/Age Wave study in 2015 found that 64% of retirees say they plan on moving during retirement. This is an opportunity to find a smaller home more suitable to couples who are aging, and also to pay a large down payment or even buy for cash.

Paying down/off your mortgage might be a good idea, but it's not always a great idea. Do you have liquidity (money to spend) for monthly bills, trips, home repairs, college funding, medical expenses, retirement, etc.? Home equity is not so easily tapped for these purposes. For those who say "I can't trust investments. I'd rather pay down debt", we remind you to consider the tradeoffs when deciding to pay down your mortgage debt. For example, the Dow Jones Moderate Portfolio Index* averaged a 7.99% annual return over the last 25 years (Morningstar).

The decision to pay off a mortgage is not one to treat lightly or undertake simply because a guy on the radio says it's the thing to do. It ought to be part of a larger financial plan. If you're mulling this over, give us a call, and we can help you get a good handle on it.

*All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results. **Dow Jones Moderate Portfolio Index**: A benchmark designed for asset allocation strategists who are willing to take 60% of the risk of the global securities market. It is a total returns index that is a time-varying weighted average of stocks, bonds, and cash.
