

Ogan Financial Group, Inc.

True Wealth Management



980 Enchanted Way Suite 206
Simi Valley, CA 93065
805.527.8806 Office

In the News...



The power to make it better.

Retirement Planning Should You Pay Off Your Mortgage Early?

Many of us dream of retiring debt free with a nest egg large enough to sustain us in our later years. For many, this dream involves paying off a home mortgage. Let's assume that you have available funds—from an inheritance, lump sum payment, or sale of property, for example. Should you use that money to pay off your mortgage? The option of paying off your mortgage has both pros and cons.

Pros

Paying off your mortgage has some advantages, such as:

Providing Emotional Security. Paying off your mortgage provides emotional relief from the anxiety of owing money. *You may simply feel more secure owning your home free and clear.* This sense of security may matter a great deal if you plan live in your home when you retire. Also, you may desire to leave a debt-free home to your heirs.

Investing for the Future. Without a mortgage payment, you'll have more money to invest for the future. Your retirement savings can grow more quickly. Mortgage interest on a large or high-rate loan may be costing you a hefty sum. Instead of paying interest, you could be earning interest with your funds.

Meeting Retirement Needs. If you are already retired, paying off your mortgage can free up your money for other things. *Experts recommend accumulating enough retirement savings to have at least 70 percent of your working income.* If you're short of this goal, eliminating mortgage payments will free up monthly income for living expenses. This approach is especially helpful if you have a large mortgage with high payments.

“Houses gain and lose value, depending on local conditions. These market changes affect the equity you've built in your home.”

- With equity separated in a safe, liquid side account, you can protect it rather than wait for it to rebound from a down market.

Reducing Loan Stresses. Paying off your loan removes loan-related stresses, too. Houses gain and lose value, depending on local conditions. These market changes affect the equity you've built in your home. Without a loan, you remove the risk of "owing more than you own." Also, you avoid being hit by climbing rates if the interest on your loan is variable. You may also want to pay down part of a loan if it is large.

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- This can be accomplished with or without a mortgage.

Cons

Despite these advantages, paying off a mortgage early is not the best approach for everyone. Eliminating your mortgage has drawbacks, too, such as:

Missing Investing Opportunities. You can lose the opportunity to invest and build up a secure retirement nest egg. If you use your resources to pay off your mortgage, you'll have less money to devote to growing your investments. If the interest rate on your loan is reasonably low, you may be able to earn more by investing. You can build wealth by investing in higher-rate earnings vehicles.

“If you use your resources to pay off your mortgage, you'll have less money to devote to growing your investments.”

This drawback particularly applies if you have more than 10 years remaining before retirement. With this extra time, you could grow your money if it is invested well. So, paying off a mortgage may not make sense if you're focused on accumulating wealth at this point in your life.

“If you pay off your mortgage, you'll lose the interest deduction. This could hurt especially if you are or expect to be in a high tax bracket during retirement...”

- Without deductions to offset the taxes paid on 401Ks, IRAs and Pensions, retirees are likely to be in the same or higher tax bracket.

Losing Tax Savings. Another disadvantage of paying off your mortgage is lost tax savings. The interest on your mortgage is tax deductible. This tax deduction may mean considerable savings for some homeowners. If you pay off your mortgage, you'll lose the interest deduction. This could hurt especially if you are or expect to be in a high tax bracket during retirement, when you could really use the deduction. It also has greater impact if you have more than 10 years left to pay on a 30-year mortgage. During the early years of repaying your loan, you pay more in interest and stand to benefit from a larger deduction.

You Decide

Ultimately, the question of whether to pay off your mortgage has no one "right" answer. Only you can determine whether eliminating your mortgage will best serve your financial goals. Here are two checklists to help you decide.

You are more likely to benefit from paying off your mortgage if you meet most, or many, of the following conditions:

- You value the security of knowing that you own your home free and clear.
- You are uncomfortable with loan-related stresses, such as market and interest rate fluctuations.
- You are paying a higher rate on your mortgage than you are earning on your current investments.
- You have no consumer debt.
- You can pay off your mortgage while still maintaining an adequate cushion of savings.
- You'd rather use your mortgage payment funds to invest for the future.
- You have less than 10 years remaining on a 30-year mortgage, so you're not getting a significant tax deduction.
- The tax deduction is not that helpful because you're in a lower tax bracket.
- You are planning to purchase a smaller home or move to a less-expensive area soon. You could use the proceeds from selling your current house to purchase a smaller home free and clear.

You are less likely to benefit from paying off your mortgage if you meet most, or many, of the following conditions:

- Your primary goal is saving and investing for the future.
- The interest rate on your mortgage is lower than the return you can earn on investments.
- You have the discipline to stick to your plan and invest the money.
- You can improve your financial situation by paying off higher-interest credit cards.
- You can handle your mortgage payments comfortably, based on your current or projected income.
- You have 10 years or more before retirement.
- You have more than 10 years to pay on a 30-year mortgage, so the tax deduction is significant.
- The tax deduction is useful to you because you're in a high tax bracket.

Which option is best? Again, the choice is an individual one. As you're deciding, be clear about your priorities and values. Assess your lifestyle needs realistically. Know where you stand with respect to your retirement goals. Finally, consult with a financial professional for help in determining the right approach for your personal situation.

This column is meant to provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice.



OFG: The American Dream is to own a home free and clear. Traditional financial advice tells us to pay off our mortgage. However, with no mortgage payment and nearing retirement, many retirees find themselves “house rich” and cash poor. With health care costs rising and Social Security and Pensions insufficient to maintain their standard of living, retirees are left with two options: 1) Go back to work, or 2) Utilize a reverse mortgage, relying on the equity you’ve exhaustively spent the last 30 years paying off to now fund your retirement on the banks terms.

Homes were meant to store families, not cash. What if during your earning years, your equity was separate and secure in a safe, liquid side account earning a reasonable rate of return that offers Tax-Advantaged Contributions, Tax-Free Accumulation, Tax-Free Withdrawal and Tax-Free Transfer. Additionally, that would grow to an amount that could pay off your mortgage many times over, while maximizing your tax deductions, and fund your retirement without fear of outliving your income, while offering you all the emotional benefits of having a home paid off?

To learn more about these wealth building strategies as illustrated in the *Missed Fortune* book series by Douglas Andrew, please visit our website at www.oganfinancialgroup.com and register for one of our upcoming seminars.