Crossroads: Pay down your mortgage or invest in your RRSP?

How to decide which course of action is your best long-term alternative

Yanping (Gloria) LIU M. Sc.
Consultant

Have you ever wondered whether it makes more sense to pay off your mortgage or to invest in a Registered Retirement Savings Plan? Perhaps you're expecting to receive some extra money from an inheritance or an employment bonus, and you're not sure which route to take.

The truth is, there is no easy answer. There are many variables that must be taken into account. Concentrating on paying down a mortgage may be the best route for one person, while focusing on an RRSP may benefit another.

Here are some factors to consider:

- *Your age.* When you're young, it is wise to make your RRSP a priority. The sooner you get money into a sheltered retirement plan, the longer it will grow on a tax deferred basis. But don't overlook the need to build home equity. It can give you a head start on the expenses of moving to a larger home as your family grows.
- *Your income.* The more you earn, the higher the rate of tax you'll pay. That means you must earn more in before-tax dollars to make mortgage payments. If you're a high income earner you may want to quickly reduce this expensive debt.
- *Investment returns.* Pay attention to the general rate of investment returns you could reasonably expect to earn when you make your decision. Astute investors could be further ahead by investing their money than paying down the mortgage. The benefits of investing are magnified by an RRSP, with tax-deferred growth within the plan and the tax deductions on contributions.
- *Your mortgage rate.* If your current mortgage rate is low, it may make more sense to invest in an RRSP. In times of good returns for financial markets, low borrowing costs make a compelling case for contributing to your RRSP.
- *Are you behind on your RRSP?* If you have made less than your maximum annual RRSP contribution in the past, a lump sum could allow you to catch up. You are allowed to make up for unused contribution room that you've accumulated from past years—which can also generate a healthy tax benefit.
- *Your pension plan.* Those with generous workplace pension plans that provide for a secure retirement may be able to concentrate on a mortgage without giving up financial security in retirement.

Of course, you can focus on both your RRSP and mortgage. For example, you could contribute to your RRSP and then apply the tax refund it generates towards a prepayment on your mortgage.

Before you make a decision, you may want to ask for an assessment of your personal situation. An advisor can help you decide which course of action suits your financial circumstances and objectives.

Yanping (Gloria) LIU M. Sc.
Consultant
yanping.liu@investorsgroup.com
(416) 725-8996

Suite #: 1020
1 City Centre Dr.
Mississauga, ON
L5B 1M2

1-800-306-2031

The Plan by Investors Group™

Investors Group Financial Services Inc.