VASSEY
Financial Planning & Investments

Should You Pay Off Your Mortgage?

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After years of dutiful payments, you find yourself in the enviable position of having enough accumulated savings or discretionary income that you could aggressively pay down—or completely pay off—your mortgage. But should you? Are there better ways to ensure your financial security?

Making the best choice for you

Paying down your mortgage faster—or paying it off in a lump sum—seems like a no-brainer. For most Americans, a mortgage represents both the highest monthly expense and the largest liability on a net-worth statement. Intuition tells us that debt is bad, and being out of debt is akin to increased financial security.

While it's true that you can save thousands of dollars in interest by paying off the loan early, the interest rates for fixed-rate mortgages are historically low, and your mortgage interest is tax deductible. Depending on your circumstances, there may be better ways to use that extra money to boost your short- and long-term financial security.

With that in mind, **here are some questions to consider** before you aggressively pay down—or pay off—your mortgage:

- **Do you have higher interest or nondeductible debt?** If so, it makes sense to pay that off before paying down your mortgage. Credit card debt in particular should be a priority, as it has very high interest rates, and the interest is not tax-deductible the way mortgage interest is.
- **Are you already maximizing the employer match on your 401(k) and your annual contributions to IRAs?** If not, you may want to prioritize this over paying down your mortgage. An employer match is essentially free money, and qualified retirement accounts grow tax deferred (or generally tax free for Roth IRAs). These are critical opportunities to boost your retirement savings, and because there are annual limits to how much you can contribute, money you don't invest now is a lost opportunity.
- **How is your emergency fund?** It is generally recommended that you keep between three and six months of household expenses set aside for emergencies. You'll sleep better at night knowing you have liquid assets if you need them. If your emergency fund is light, it's probably wise to build it up before reducing your mortgage.
- **How is your health insurance coverage?** Whether it's life, medical, disability, or long-term care, your financial security could be undermined if you're not properly insured. The type or amount of insurance that's right for you comes down to your comfort in managing risk, but addressing potential shortfalls in coverage might be a higher priority than paying down your mortgage.

- **Do you have children?** If you have kids, putting extra money into a college savings plan now will allow you to maximize tax-deferred savings and growth. You could even be eligible for a state tax deduction for your contributions, depending on where you live and the plan you choose.

While paying down—or paying off—your mortgage early is a worthy goal, it is important to align it strategically with other goals and within the bigger picture of your long-term financial security. If you have questions, we are happy to assist you in planning for these important decisions.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

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