

SHOULD YOU PAY OFF YOUR HOME BEFORE YOU RETIRE?

BY DOMINIC LUCENTE

Before you make any extra mortgage payments, consider some factors.

Should you own your home free and clear before you retire? At first glance, the answer would seem to be “absolutely, if at all possible.” Retiring with less debt ... isn’t that a good thing? Why not make a few extra mortgage payments to get the job done? In reality, things are not so cut and dried. There is a fundamental opportunity cost to consider. If you decide to put more money toward your mortgage, what could that money potentially do for you if you were to direct it elsewhere? In a nutshell, the question is: should you pay down low-interest debt, or should you invest the money into a tax-advantaged account that could potentially bring you a strong return?

Relatively speaking, home loans are cheap debt. Compare the interest rate on your mortgage to the one on your credit card. Should you focus your attention on a debt with 6% interest or a debt with 15% interest? You can usually deduct mortgage interest, so if your home loan carries a 6% interest rate, your after-tax borrowing rate could end up being 5% or lower. If history is any barometer, your home’s value may increase over time and inflation will effectively reduce the real amount of your mortgage over time.

Making mortgage prepayments may not be the right choice. It’s important to look at the math and examine the tradeoff between prepaying your mortgage and tax-deferred retirement savings. In her MSN Money article *Should I Save More for Retirement or Pay Down My Mortgage?*, Stacy Johnson noted “For most people, mortgage interest is tax-deductible, retirement plan contributions are deductible and their earnings are tax deferred. This tax arbitrage makes retirement contributions a better choice, at least for some.”¹ You save taxes on each dollar you direct into IRAs, 401(k)s, and other tax-deferred investment vehicles. Those invested dollars have the chance for tax-free growth.

If you are like a lot of people, you may enter a lower tax bracket in retirement, so your taxable income and federal tax rate could be lower when you withdraw the money out of that account. Another potential benefit of directing more funds toward your 401(k): If the company you work for provides an employer match, then you may be able to collect more of what is often dubbed “free money”.

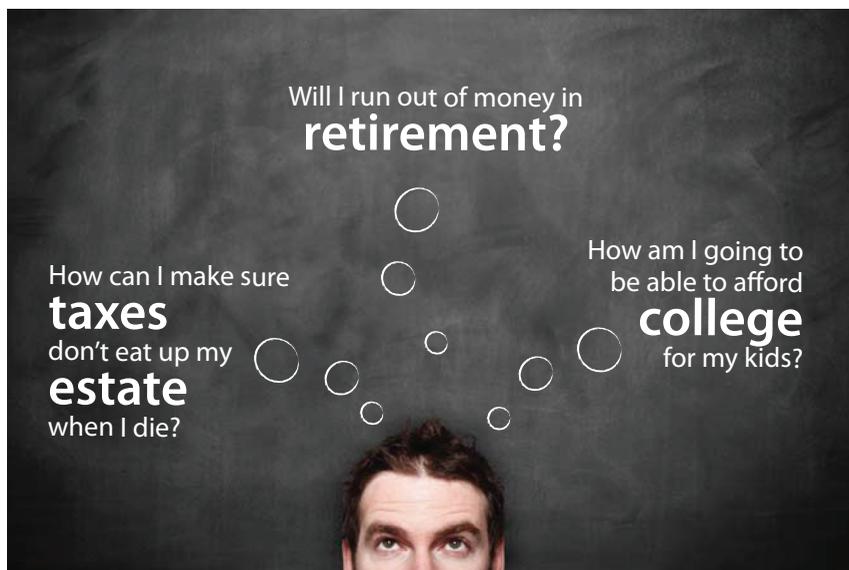
Let’s turn from tax-deferred retirement investing altogether and consider insurance and college planning. Many families are underinsured and the money for extra mortgage payments could optionally be directed toward long term care insurance or disability coverage. If you’ve only recently started to build a college fund, putting the assets into that fund may be preferable. Let’s also remember that money you keep outside the mortgage is money that is generally easier to access.

What if you owe more than your house is worth? Prepaying an underwater mortgage may seem like folly to you – or maybe you really love the house and are in it for the long run. Even so, you could reallocate money that could be used for the home loan toward an emergency fund, or insurance, or some account with the potential for tax-deferred growth – when all the factors are weighed, it might look like the better move.

Think it over. It really comes down to what you believe. If you are bearish, then you may lean toward paying off your mortgage before you retire. There is no doubt about it - when you pay off debt you owe, you effectively get an instant return on your money for every dollar. If you are tantalizingly close to paying off your house, then you may just want to go ahead and do it because you love being free and clear.

On the other hand, model scenarios may tell you another story. After the numbers are run, you may want to direct the money to other financial priorities and opportunities, especially if you tend to be bullish and think the market will perform

YOU HAVE QUESTIONS...



WE HAVE ANSWERS

ARE YOU OVERWHELMED BY THOUGHTS ABOUT YOUR RETIREMENT OR AFFORDING COLLEGE FOR YOUR KIDS? DO YOU WANT A SECOND OPINION ON YOUR CURRENT PORTFOLIO?

WE CAN HELP YOU TO BETTER UNDERSTAND AND PLAN FOR YOUR FINANCIAL FUTURE.

CALL ME TODAY FOR A FREE FINANCIAL CONCERNS CHECKLIST!



Dominic M. Lucente, CFP®
CERTIFIED FINANCIAL PLANNER™
NORTHEAST PLANNING ASSOCIATES, INC.
(603) 645-8131
WWW.DLUCENTE.COM



Financial planning offered through Northeast Planning Associates, Inc. (NPA), a registered investment adviser. Securities and advisory services offered through LPL Financial, a registered investment adviser and member FINRA/SIPC. Insurance products offered through NPA, LPL Financial or its licensed affiliates. The Credit Union, NPA and LPL Financial are not affiliated. 425 Hooksett Road, Manchester, NH 03104. 14-312

Not NCUA Insured | No Credit Union Guarantee | May Lose Value

along the lines of its long-term historical averages.

No one path is right for everyone. If you’re unsure which direction may be most beneficial to you, speak with a qualified Financial Professional.

Dominic Lucente may be reached at **603.645.8131** or **dominic.lucente@LPL.com** **Dlucente.com**

Financial planning offered through Northeast Planning Associates, Inc. (NPA) a registered investment adviser. Securities and advisory services offered through LPL Financial, a registered investment adviser and member FINRA/SIPC. Insurance products offered through NPA, LPL Financial, or its licensed affiliates. The Credit Union, NPA and LPL Financial are unaffiliated.

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Citations.
1 - msn.com/en-us/money/retirement/should-i-save-more-for-retirement-or-pay-down-my-mortgage/ar-AAgYTP7?i=BBn7Kz [6/13/16]



Chandronnait Tennis Academy

33 Dunbarton Center Road, Bow

INDOOR COURT TIME AVAILABLE

- *No membership fee required and seasonal rental available!
- *Located in Bow (only minutes from Concord)
- *New Roof, New Heaters, Recently Resurfaced, Indirect Lighting
- ***Only \$9.00 per person per hour doubles and \$18 for singles**
- *Check us out with a **FREE** hour of court time (Expires 10/31)

Contact Alan Chandronnait, 774-3839 to reserve your court



DAVIS & TOWLE INSURANCE GROUP



Insuring NH since 1954 from our locations in

Amherst, Concord, Franklin
Henniker and Hillsboro

FOUNDED ON THE TRADITION OF PROTECTING OUR COMMUNITY

Quality Service & Coverage

SOLUTIONS TO ALL OF YOUR COVERAGE NEEDS - CALL TODAY
603-225-6611
OR REQUEST A FREE QUOTE AT
WWW.DAVISTOWLE.COM



HOME - AUTO - BUSINESS - LIFE / DISABILITY - HEALTH



Visit Our Office Near You : 115 Airport Road, Concord, NH 03301