

SHOULD YOU PAY OFF YOUR MORTGAGE OR INVEST?



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It seems like a no brainer to pay off your mortgage. When you're carrying hundreds of thousands of dollars of debt and paying thousands in interest every month, surely the best thing you can do financially is to reduce that debt and pay less interest?

Maybe.

Unfortunately, it's not that simple. If it makes you feel more secure and less stressed to have a smaller mortgage, then it might be the best thing for you to do emotionally – but it may not be the best thing for you financially.

Financially, it can be looked at as a simple mathematical question.

If you're paying less in interest than you're likely to earn as a return on your investment then, financially, you're probably better off investing it.

For example, let's say you have \$800,000 of debt on your mortgage and you have \$100,000 available to either invest or use to pay down your debt.

If your mortgage interest rate is 4%, the annual cost of the mortgage equates to \$32,000 in interest payable.

However, if your investment is expected to generate a return of 8% per year, the amount you stand to make is \$56,000. In the latter scenario, you are \$24,000 better off by investing those funds.

It's important to point out that these numbers will change over time as interest rates move, and in some years it may be a better strategy to pay down debt than to invest. That's where regular check-ins with your financial adviser can be beneficial.

So that covers the financial and emotional part of the question, but you should also look at your longer-term goals.

Where do you want to be in 5, 10 or 20 years time? Both financially and personally? Are you likely to still be living in the same house?

Do you think you'll be doing similar work, but continuing to earn more money as your career progresses?

Maybe you'll be opening your own business, so will want a lump sum available to start things off?

Maybe you're thinking of retiring? If so, you may want to pay down your house debt as (with the current regulations) your home isn't covered in the pension assets test.

As you can see, while on the surface it's an easy question. There are several different layers and the right answer for you will depend on your age and your personal and financial situation.

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