
DO YOU KNOW DAKARI AND ASH?

Ash recently increased his Retirement Savings Plan contributions and will be getting a larger tax refund come April. Dakari just received a substantial increase in his salary. Their current mortgage is quite large, and Dakari thinks the extra income should go towards paying off their mortgage. Ash thinks the extra income should go towards retirement savings. Which options is best?

DAKARI AND ASH SHOULD CONSIDER THESE OPTIONS.

A. Pay off mortgage first, and then contribute to the RSP

- Advantage: Additional mortgage payments could go directly to the principal, saving Dakari and Ash interest and reducing the term of their mortgage.
- Disadvantage: Dakari and Ash could miss out on the benefits of long-term compounding growth, and an immediate tax refund.

B. Make regular mortgage payments and RSP deposits:

- Advantage: Take advantage of long-term compounding growth and an immediate tax refund.
- Disadvantage: By paying off their mortgage slowly Dakari and Ash will pay more interest. Depending on the amortization period, Dakari and Ash may be at risk of carrying mortgage debt into retirement.

C. Make an RSP deposit and use the tax refund to pay down the mortgage faster. This option allows Dakari and Ash to have the best of both scenarios:

- An RSP contribution results in a tax deduction and allows Dakari and Ash to benefit from compound growth.
- Additional mortgage payments go directly to principal, building home equity and reducing borrowing costs.

Have questions? Contact your advisor today to learn more about how to boost your savings.

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Speak to your advisor today and learn how saving now can help you reach your financial goals. The case study is for illustration purposes only. The information provided is for general information only and does not provide investment, legal or tax advice. You should consult a professional advisor with respect to your own personal circumstances.