What to do with your money after you pay off the mortgage

You've just made your final payment. Now what? 10 smart ways to spend your new-found money.
By: Anne Bokma

Mortgage-free!

Diane Fairchild* is in a position most Canadians dream about. In January, the 57-year-old marketing manager made the last $1,600 mortgage payment on her $700,000 three-storey home in a Halifax suburb, a house designed by her father in 1969 that she purchased from him in 2004 for $400,000.

Having the weight of that payment lifted gave Fairchild the confidence to take a $100,000-plus buyout offer her employer proposed to staff. “If I’d still had a mortgage, there’s no way I’d have taken that offer,” she admits.

Fairchild is among the 44 per cent of Canadian homeowners age 45 and over who have paid off their mortgage, according to the “2010 TD Canada Trust Boomer Buyers Report.” Since the average mortgage payment in Canada is about $1,500, that’s a big chunk of change these folks are able to pocket every month. Curious about what they do with all that money? So were we. Here are some of the possibilities for using the extra dough once you are mortgage-free.

1 Increase your retirement savings
“Lots of people aren’t able to contribute much to their RRSPs when they’re bringing up kids and paying off mortgages, and they feel guilty about that,” says Karin Mizgala, a certified financial planner and CEO of Vancouver-based Money Coaches Canada. “But they can make up for this when the mortgage is done. For example, if you put $1,000 a month into an RRSP from age 50 to 65, you’ll end up with about $260,000, based on a five per cent return.”

2 Put the kids through school
Paying off a mortgage can coincide with your kids leaving for university. With the cost of earning a four-year degree while living away from home hovering around $80,000, your kids are going to need all the help they can get. If they haven’t yet hit university age, you can use the extra cash to top up your RESP contributions. While Fairchild was busy paying down her mortgage, she was unable to put aside more than $100 a month in RESP savings for each of her school-age boys. Now she plans to more than double that to $2,500 a year per child, which will allow her to get the maximum Canada Education Savings Grant of 20 per cent on the first $2,500 contributed. “Because my husband and I are older parents, it’s even more important we get as much money as possible locked away now,” she says. “I don’t want to be paying for my kids’ education when I’m fully retired and want to take a trip to the Grand Canyon.”

3 Move one step closer to retirement
With no mortgage to worry about, you won't need as much retirement income. If you are part of a couple, you may find one of you can quit work and you can live on one salary instead of two. When one of Mizgala's clients pocketed an extra $1,000 a month after paying off her mortgage, she realized she'd be able to retire comfortably in five years at age 63, instead of waiting until 65.

4 Change your work life
"Some people hate their job, so now they can think about either retiring sooner, working part-time or starting their own business," says Mizgala. That's what Kit Redmond did. Ten years ago, the now 52-year-old TV executive paid off the mortgage on a Toronto home she and her husband had bought in 1994 for $380,000. Around the same time, she decided to take a risk and start her own production company. Today, she and her husband each earn six figures, but they'd managed to pay off a large amount of their mortgage when she was a stay-at-home mom and their household income was less than $100,000 a year. They did it by making annual lump sum payments of $5,000 to $20,000 toward the mortgage principal and by giving up extras such as a second car. Among the shows Redmond produces is *Burn My Mortgage* on W Network. "It was inspired by my own experience," she admits. "It's great to be able to help other families get rid of their mortgage."

5 Reinvest in your home
Undertaking a renovation or an addition once your mortgage is paid off can increase your home's value and give you more money once you sell it. You can put the reno expense on a line of credit and then pay it off as you would a regular mortgage. Once her home was paid for, Redmond invested $50,000 in a new kitchen that helped the home command a $740,000 selling price. Kelley Keehn, author of *The Woman's Guide to Money* and six other financial books, suggests talking to realtors to help determine what types of home improvement will get you the most bang for your buck. "It's important to consider how long you'll have to live there before recouping your costs," says Keehn, also the host of *Burn My Mortgage*. She cautions homeowners to "be careful about thinking about your home in terms of an investment — an investment is something you will liquidate for your retirement. Plenty of people want to still live in their home when they retire."

6 Downsize
If you no longer want the hassle of a large home, you can sell your property, move to a smaller house, condo or apartment, and sock a lot of money away. According to the TD Canada Trust report, 80 per cent of Canadians age 45 to 64 say their next move will be to a smaller home.

7 Buy a vacation property
Once you've paid off the mortgage on your principal residence, you may be ready to invest in another property. (Twelve per cent of boomers plan to purchase a vacation property in their retirement, according to the TD Canada Trust report.) In 2009, shortly after Marianne Rogers* paid off the $143,000 mortgage on the Laval, Que., home she purchased in 1998, she put $45,000 on her line of credit to buy a $200,000 condo in Nanaimo, B.C. The rental income covers all but $150 of her monthly costs. "It's an investment for my retirement," says Rogers, 51. "At some point I may move out there, or sell it for about $400,000 in about 15 years' time."

8 Borrow against your home to invest more aggressively
You might be tempted to "unlock" some of the equity in your paid-off home by borrowing against it and investing in mutual funds or stocks. The hope is the investment will cover the cost of the loan and also generate extra income. But as experts caution, this is an option only for savvy, financially secure investors who have a high tolerance for risk. "It can work if you make more money on the investment than you have to pay in interest, but it can also backfire," explains Mizgala. Keehn agrees: "On paper, this sort of thing can look great — you can get a mortgage for 3.5 per cent and your stock portfolio could earn six or seven per cent. But what if the market drops and suddenly your investment doesn't cover the payment? You still have to pay that loan and now you've put your home at risk."

9 Give to others
Emily Tilson*, 66, a retired Hamilton, Ont., nurse, has been living mortgage-free for seven years. "We bought cheap houses compared to our friends," she says. "We lived in inner-city neighbourhoods or out on a farm." Tilson says being mortgage-free has allowed her to be generous with her four children and five

grandchildren. She gave one daughter a second-hand car, treated a grandson to Walt Disney World in Florida, pays for her grandkids' violin and piano lessons, and helps send them to camp. "To me, charity begins at home and with my friends. My pockets have holes and money just leaks out of them, and I'm okay with that," she says. "It gives me great pleasure to give gifts that are meaningful."

10 Splurge
Sure, you could do the financially responsible thing and top up your RRSP, but along with the happy dance that comes with burning your mortgage, you may want to indulge a little. While Kit Redmond and her family made do with one vehicle during those years of scrimping and saving to pay off the mortgage, she now drives what she calls her "midlife celebration car" — a red Audi convertible. "Yes, I bought it with cash," she says proudly. "When you don't have a mortgage, you have a lot of freedom — whether it's choosing a new career or buying the car of your dreams."

RRSP or mortgage? Where should your money go?
It's a dilemma many Canadians ponder: What should be the biggest financial priority — saving for retirement or paying off the mortgage?

The standard advice is to maximize your RRSP and apply your tax refund toward your mortgage principal each year. But Karin Mizgala, a certified financial planner in Vancouver, says there are other things to consider — your tax bracket, for one. "The more money you make, the more valuable the RRSP contribution is because you'll realize more savings," she says. Conversely, if you are in a low tax bracket, you might be better off applying any extra money to your mortgage.

And if you opt for low-interest investments such as a GIC, which may pay only two per cent, you might be better off putting that money toward your mortgage and save the five per cent in interest costs. "There's no blanket answer for everyone — you have to look at each person's individual situation," Mizgala says. One thing is clear, however: "The closer you are to retirement, the more aggressively you should be trying to pay down your mortgage." According to a 2010 Royal Bank of Canada poll, nearly 25 per cent of retired Canadians still carry a mortgage on their primary residence. Do you really want to be one of them?

How to pay off your mortgage faster

Make the biggest down payment you can afford
The more you put down, the less you have to pay back.

Get the best rate possible
Shop around and don't be afraid to negotiate. A one per cent difference on a $250,000 mortgage could save you about $40,000.

Opt for accelerated biweekly payments
You'll be making the equivalent of an additional mortgage payment per year, which can take almost five years off your mortgage.

Reduce the amortization
Aim to pay off your mortgage in 15 years instead of 25.

Make more payments
Most banks will allow you to make lump sum payments each year, for up to 20 per cent of the original borrowed amount. An open mortgage allows you to make extra payments throughout the year. These payments are applied directly to the principal, saving you thousands of dollars in interest costs over the life of the mortgage.

Keep your payment the same when you refinance at a lower rate
This way, more of your payment will go toward the principal.

** Names changed by request*