

## **Pay down mortgage or contribute to RRSP?**

It's a tough question. One expert says paying down debt is the most important thing. Another says building an RRSP is first priority. Who's right?

The right answer depends on interest rates, mortgage rates, investment returns and your own situation. But putting all that aside, here's a strategy that allows you to satisfy both objectives.

Just make your RRSP contribution and use your tax refund to reduce your mortgage. Let's look at the following example:

Assume you have a \$100,000 mortgage, a mortgage interest rate at 8 per cent per annum, and make monthly mortgage payments of \$836. You have 20 years until retirement and have \$5,000 in savings to invest.

You invest your savings in an RRSP, receive a \$2,000 tax refund assuming you are in a 40 per cent tax bracket, and use your tax refund to pay down your mortgage.

Over a twenty-year period, if your \$5,000 investment in an RRSP earns an 8 per cent annual rate of return, the investment would be worth \$23,305.

With the lump sum payment of \$2,000 on the principal amount of your mortgage you have reduced the principal from \$100,000 to \$98,000, reduced your amortization period by one year, and saved approximately \$9,900 in interest. Your combined savings of \$23,305 in your RRSP and interest savings of \$9,900 total approximately \$33,205.

This is based on a one-time contribution. Do this every year and you'll build an RRSP and at the same time, reduce the principal, the amortization and the interest on your mortgage.