The Saving vs. Mortgage Dilemma
How to best utilize extra Cash

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Executive summary

After all the bills are paid, sometimes we find ourselves with a surplus of cash and are left wondering the best way to use it. Your options for available cash essentially fall into three categories: spending it, investing it, or pay down debt. Trying to perfect the balancing act of savings as much as possible while still trying to pay for a mortgage can be stressful and somewhat confusing. While there is no one-size-fits-all solution for allocating cash, there are some tried and true principles that could help you make the most of your money.

What you need to know

Often times when people come into some extra cash their first instinct is to pay down debt. While this can be a no brainer when it comes to dealing with high interest debt, such as credit cards, this might not be the best decision for a mortgage. Mortgages are considered to be low interest debt. Therefore, it can sometimes make more sense to invest the money where you rate of return could exceed the interest rate of your mortgage. By making a deposit into your RRSP you can make this is a win-win situation. Depositing capital into your RRSP will allow you the opportunity to see your money grow, all the while giving you a tax refund that can be put down in a lump sum on your mortgage to help you get even further ahead.

When it comes down to a TFSA vs a Mortgage, however, the same may not be true. While a TFSA does grow tax free, it is funded with after tax dollars and no tax refund exists for deposits. If your RRSPs are maxed out and you are trying to decide between your Mortgage and TFSA, then your decision may simply come down to your rate of return. For example, if you are 3% on your mortgage and you think that you can only earn 2.5% in your TFSA, the mortgage would be the best bet. Conversely, for the purposes of our example, if you expect your TFSA to make a good return of over 5%, then the TFSA may be the best option.

The bottom line

The best strategy for you will vary depending on your personal financial situation. Your advisor can help you weigh the pro's and con's in a way that will be tailored specifically to your situation.

Building on a Foundation of Trust

FIND OUT HOW FORD KEAST WEALTH MANAGEMENT INC. CAN HELP YOU SUCCESSFULLY PLAN FOR YOUR FUTURE & REACH YOUR FINANCIAL GOALS

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