How to pay off the mortgage faster

This couple doesn't want to carry any debt into retirement

by Julie Cazzin
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The current situation

Mukesh Aggarwal, 52, and his wife Shabnam, 47, immigrated to Mississauga, Ont., nine years ago with their two sons. Together, the two pull in $175,000 annually, and both receive average annual pay increases of 5%. But despite such lucrative employment, they're feeling weighed down by the $615,000 mortgage remaining on their home. "We want to retire debt-free," says Mukesh, noting that their 2.3% mortgage rate expires next July.

Recently, the couple increased their weekly mortgage payment to $700 but feel that won't be enough. Their goal is to pay off the mortgage in 13 years, before Mukesh turns 65. They are considering putting half of their 5% average annual wage increase towards the mortgage but also want to look at other options. In 2016, their youngest son will complete university, and that will free up $7,500 annually for the mortgage. Although Mukesh stopped contributing to his RRSP, Shabnam still puts $4,800 annually into her TFSA and both pay into their company's pensions. The couple also spends $6,000 a year on vacations to their native India. Would cutting back in all these areas be enough?

The verdict
According to Tom Feigs, a financial planner with Money Coaches Canada in Calgary, the Aggarwals are not on track to pay off their mortgage before Mukesh turns 65. If they continue to make weekly $700 payments and their mortgage rate increases to an average of 4% (which Feigs feels is a reasonable scenario), it will take 21 years. "Time isn't on their side."

To get closer to their goal the couple should reduce their discretionary spending, Feigs says. He recommends cutting their vacation costs in half, to $3,000 annually. They should increase their mortgage payments by half of the net amount of any raises they get ($2,600 this year). Finally, they should redirect money currently set aside for university tuition fees into their mortgage once their son graduates. "This will allow the couple to increase their weekly mortgage payment to $790 a week next year and $950 in 2016, with an additional $50 increase every year after that. Doing all of this will allow them to pay off their mortgage by the time Mukesh turns 66—still a year short of their goal. "A small inheritance, bonus or extra income from renting a room could help them get there quicker."

WHERE THEY STAND

ASSETS	
Principal Residence	$800,000
Mukesh's RRSP	$60,000
Mukesh's TFSA	$4,000
Shabnam's TFSA	$8,500
Total Assets	**$872,500**
LIABILITIES	
Mortgage (at 2.3% due July 2015)	$615,000
Total Liabilities	**$615,000**
NET WORTH	**$257,500**

THE MORTGAGE IS PAID OFF BY AGE 66 UNDER THE NEW PLAN