# Paying off the mortgage in 10 years

## This couple is on track to pay off the mortgage by the time their kids go to college.

by Julie Cazzin
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### The current situation

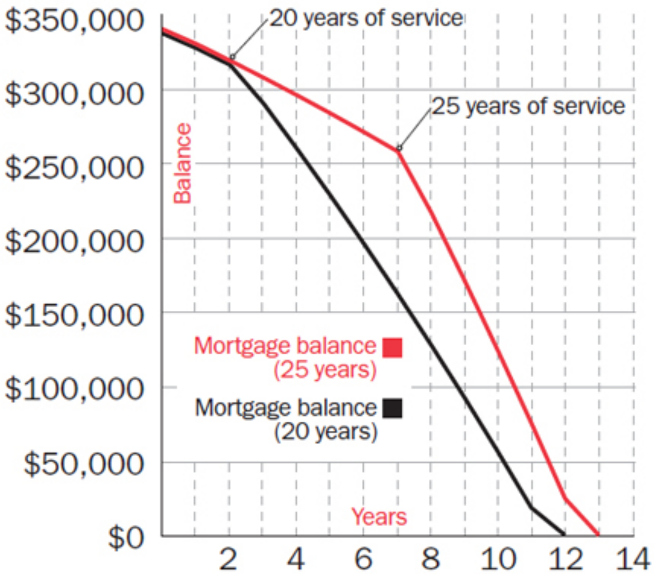
Derek and Julia Cheng, both 43, would love to pay off their $342,000 mortgage by age 55. "Our kids are 12 and 8," says Derek, a police officer in Greater Vancouver. "We'd like to be mortgage-free by the time they're in college." Derek says he has two choices. He can work until 45, then retire from the force with an early but reduced annual pension around $22,000. Then he would take a job with a different police force and still earn $81,000 annually. Along with the $21,000 the Chengs now pay annually on the mortgage, Derek plans to put the entire $22,000 annual pension toward paying down the principal. "I'm just not sure if 10 years of extra payments will be enough to have the mortgage paid off by 55," he says.

The second option is for Derek to retire from the force at 51. At that time, he thinks he would get an annual pension of $42,000. Again, he would get a job with a different police force and put the entire $42,000 annual pension towards the mortgage. "He'd love to do more volunteer work and possibly start a small business in his 50s," says Julia, a part-time yoga instructor. "Paying off the mortgage quickly would help Derek achieve that goal."

### The verdict

According to Tom Feigs, a financial planner with Money Coaches Canada in Calgary, Derek and Julia can have their mortgage paid off by age 55 using either scenario. "Derek is engaged in two 'forced savings' practices—building his pension and paying off the mortgage." The police force Derek is with provides for a full and immediate pension after 25 years of service. Between 20 and 25 years, it is reduced by 5% per year to a maximum 25% reduction. Derek needs to reach his 20th year of service (in 2016) for his first opportunity at an immediate monthly entitlement and is just two years away from that milestone. After applying an income increase of 1.5% each year, Derek's before-tax pension will be higher than he thinks. It would reach $29,000 annually if it starts in 2016 (at age 46) and $52,000 annually if he works until 51. Derek is on track to reach his goal using either scenario. "I think retiring at age 51 with the bigger pension is the more attractive path," Feigs says. "Those extra five years of being in the force guarantees him a pension of $52,000 a year for life. I wouldn't give that up."

## UNDER EITHER SCENARIO, THE CHENGS REACH THEIR GOAL




| | AGE 46 SCENARIO | AGE 51 SCENARIO |
|---|---|---|
| **Years of Service** | **20** | **25** |
| Salary (new job) | **$83,000** | **$89,300** |
| Pension | **$29,000** | **$52,000** |
| Total Income | **$112,000** | **$141,300** |
| | **REDUCED** | **UNREDUCED** |
| **Effect on Pension** | Indexing at age 65 | Indexing at age 60 |
| Tax on pension | **38%** | **40%** |
| Net payment from pension to mortgage | **$17,920** | **$31,000** |
| | **AT AGE 54.5** | **AT AGE 55.5** |
| **Mortgage Free** | 11 yr, 6 mo. | 12 yr, 6 mo. |