Should I cash my RRSP to pay off my mortgage?

We have four reasons you should not tap your RRSP to become mortgage free

by Janet Gray
April 14th, 2018

Q. Is it a good idea to pay off my mortgage with my RRSP money and then put what my mortgage payment was back into the RRSP once I've paid it off? What are the pros and cons of this strategy to being mortgage free?

– *Mike in Barrie*

A. Although often first thought of as a good strategy, paying off your mortgage with your RRSP and then putting what your mortgage amounts would have been back into the RRSP, is not a good strategy—for several reasons.

1. If you withdraw any money from your RRSP, it is taxed as income. In Ontario, for instance, the withholding tax rate from your financial institution on RRSP withdrawals is 10% on withdrawals up to $5,000, 20% for withdrawals of $5,000 to $15,000, and 30% for withdrawals of $15,000 or more. If sufficient tax has not been withheld as calculated at tax return time, you may have to pay more tax.
2. If you withdraw from an RRSP, you do not recapture that initial RRSP contribution room and you may not be able to re-contribute the same amount back to the RRSP unless you have sufficient current room. This means you will forgo years of compounded returns on the money you have withdrawn and it can never be made up. (This is unlike TFSAs where withdrawal amounts will be added back to your contribution room the following year.)
3. Typically, due to historically low mortgage rates, you might be earning a higher return within your RRSP than the interest you are paying on your

mortgage. If this is the case, it makes sense to continue paying your mortgage while getting higher returns on your savings.

4. An RRSP is best withdrawn when your income is lower, and contributions best made when your income is higher. Depending on your income now, the timing may not be the best and if you are receiving Old Age Security benefits, the withdrawal of RRSP money may move you into the OAS clawback range. This would impact your OAS payments for a 12- month period.

A better strategy to pay down your mortgage is to accelerate the payments by an additional—and affordable—amount, which is applied directly to the principal and has the effect of reducing the amortization period. Speak to your mortgage lender or use a mortgage calculator to estimate the results of accelerated additional payments in your particular case.