Using cash for investments vs. paying down debt in retirement

Should Karen, 65, pay off her car loan or invest her $23,000?

by Janet Gray Apr 24, 2019

Q. I just turned 65 years of age and am feeling the pinch of some of the financial mistakes I have made. Last year I bought myself a new car as a treat from the money I received from selling my home, and this year reality hit me. My car loan is at 0% interest, and I owe $ 23,000. I have enough to pay it off but initially decided to leave my money in investments. My thought was that this plan would help earn some investment income over the six years of the loan. However, now that I am living off of Canada Pension Plan (CPP) and Old Age Security (OAS) benefits each month, I feel the pinch of the payments. So my question is? Should I pay off the car, or continue the monthly payments? Thanks.
– Karen

A. A reliable vehicle is necessity for many people—and a brand-new car is enticing, indeed.

You don't mention what return you are getting on your investments, but one general rule of thumb is that you should use your money where it earns more than it saves you. So for instance, if the money you have tucked away earns more than 0%, then the investments are a better place for your money than paying off the 0% loan.

But it's also important to consider how the payment pinch is affecting your cash flow and your peace of mind. You say you are finding it harder to make the payments, and this might lead you to rely more on credit cards and other forms of borrowing in the future. So I think in your case, the answer is pretty clear. You should consider paying off the car and then enjoy a life with no car payments, less stress and within your new income and budget.

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