



## Strategically paying off a mortgage

Rather than viewing debt as good or bad, you may be in a position to tactically use debt to your advantage.

Deciding whether to pay off your mortgage early is a significant decision influenced by your financial situation, risk tolerance, investment opportunities and tax considerations. Our insights can help you navigate the intricacies of this important decision.

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### REDUCING STRESS THROUGH STRATEGIC DEBT MANAGEMENT

Being debt free in retirement may seem intuitive to reducing stress, however, a survey of 5,000 adults revealed that individuals who aim to be completely debt-free often experience more stress than those who adopt a strategic approach to debt. Rather than viewing debt as inherently good or bad, a thoughtful, analytical process is essential in helping you make more informed decisions about your financial future.

Adopting a strategic approach to manage debt can provide greater confidence compared to simply aiming to eliminate all debt. By carefully managing your debt and understanding its role in your overall financial plan, you can help achieve a more balanced and less stressful financial life.

### PRIORITIZING ASSET ACCUMULATION OVER DEBT REPAYMENT

Consider whether you have sufficient funds to retire comfortably. If you do, you might use excess funds to pay off your mortgage. If not, focus on accumulating more wealth.

Those who choose to prioritize paying down debt before building up assets can miss out on the time value of money. We believe the optimal strategy is to build assets first and then pay down debt later. This approach is designed to allow your money to work for you over a longer period and provides greater liquidity.

Firstly, this strategy enables you to leverage the time value of money, as more funds are invested for a longer period. Secondly, it helps maintain liquidity – a crucial component of financial flexibility. The downside of paying down your mortgage is that

it can result in a one-way liquidity trap, because accessing the equity in your home typically requires selling the property or taking on new debt. By building assets first, you retain control and flexibility over your financial resources.

## UNDERSTANDING INTEREST RATES AND STRATEGIC DEBT MANAGEMENT

- Interest rates are crucial in deciding whether to pay off your mortgage.
- Eliminate high-interest debt (over 10%) like credit card debt or personal loans first.
- Low-interest debt (typically below 5%) can be a valuable financial tool. For example, a low-cost mortgage at 3% might be better retained for its tax and liquidity benefits.
- For debt with interest rates between 5% and 10%, plan carefully based on your net worth and financial goals.
- High-interest debt should be eliminated to reduce financial strain, while low-interest debt can be managed strategically

to help optimize financial outcomes. For mid-range interest rates, consult your financial advisor to determine the best course of action.

## MAKING AN INFORMED DECISION

Deciding whether to pay off your mortgage requires a thorough evaluation of your financial situation, goals and risk tolerance. Once you and your advisor determine that you have accumulated sufficient assets to retire, typically at a 4% to 5% distribution rate, using excess assets to pay down your mortgage becomes a viable option.

Even for individuals who can pay off their mortgage there are circumstances where it makes sense to continue using debt strategically – and experience less stress along the way. By adopting a strategic approach to debt management and working closely with a Raymond James advisor, you can make informed decisions that align with your long-term financial goals. A thoughtful and analytical process helps provide a clearer path to financial well-being.

## ASK YOUR RAYMOND JAMES ADVISOR

To help make the right decisions to fit your financial picture, consider discussing the following questions with your advisor.

1. Do I have enough assets to retire? If not, how much more do I need to save?
2. What debts do I currently have with interest rates under 5%, between 5% and 10%, and over 10%?
3. What are the tax implications of my debt management strategy?
4. How should debt fit into my overall financial strategy?
5. What's the optimal strategy for managing each type of debt?
6. How can I maintain sufficient liquidity while paying down debt?
7. If I have excess assets, should I consider paying off my mortgage?
8. How can I optimize investment returns while managing debt?
9. What scenarios should I consider when planning my long-term goals?

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