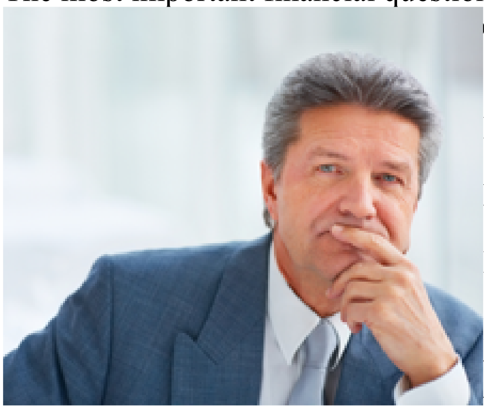
Your Employee and Family Assistance Program is a support service that can help you take the first step toward change.

Weighing your options: RRSPs and mortgages

The most important financial question for many Canadians is whether to add to their Registered



ay down their mortgage. The decision is rarely straightforward.

So which option is right for you? In most cases (but not all), the RRSP should be the priority.

Deciding factors

Here are some factors you should look at to help you decide:

Providing for your future. If you don't contribute to your RRSP, you won't have it to provide income at retirement. And you won't profit from any of its growth potential or tax-saving benefits along the way.

Not making an extra mortgage payment, on the other hand, doesn't mean losing your home. However, if you're approaching retirement, you might not want a high monthly mortgage payment after you retire. If your RRSP is in good shape at this stage, paying down your mortgage could be a priority.

A tax break. Contributing to an RRSP can give you one of the best tax breaks available. If you invest $5,000 in your RRSP, and your marginal tax rate is 41 per cent, you'll receive a tax refund of $2,050. Put another way, a $5,000 contribution costs you only $2,950.

Long-term growth. All the money earned inside your RRSP is tax-deferred. A one-time investment of $5,000, earning 8 per cent a year, would grow to $34,242 in 25 years. After 30 years, it would be worth $50,313. This is the "miracle" of compound growth.

However, if your mortgage is locked in at a higher interest rate than you're earning in your RRSP, paying down some of the principal might be your choice.

Liquidity. If you ever face a desperate financial situation, like a layoff or termination (which would create a low tax year), you can withdraw money from your RRSP. Your investment in your home is not so liquid.

Go for both

Fortunately, it is possible to contribute to your RRSP and pay down your mortgage.

One way to do both is to contribute to your RRSP, and use the tax refund to pay down your mortgage.

Another way, in a low interest-rate climate, is to reduce your mortgage and boost your RRSP with a loan.

Most mortgages allow you to make an annual lump-sum payment of 10 per cent or 15 per cent of your original principal. If the interest rate on your mortgage is higher than the rate you could get on a personal loan, consider taking a loan and using it to pay down your mortgage.

You may wish to use part of that loan to top up your RRSP, and even take advantage of unused deduction room carried forward from previous years.