

canberra times: q&a

Q 1: My husband and I have been very disciplined with our spending for many years to put as much as possible into paying down our mortgage, which is now around \$154,000 and we have no other debts. But we are getting frustrated that we haven't been able to afford to take our kids on an overseas holiday and they are growing up quickly. Should we just take the holiday now or should we wait until we have paid off our mortgage?

H.G., Florey

A 1: This is a common consideration for many in your situation and stems from the concern many have about having debt. The wisdom passed down from generation to generation is to save up your money and purchase everything with cash. While this is a great idea in principle, the reality of life for most people is that if you want to buy a house then you would need to borrow money for the purchase in the form of a mortgage. Unless you can live rent free with your parents into your 30's or receive some financial contribution from family, it would not be possible for most people to save enough to pay for a house in cash, particularly while renting, having a car, raising kids etc. So for most people, having some debt will be necessary and 'normal'.

Debt can be considered as leverage – whether leverage to gain greater investment exposure to grow wealth over time through purchasing an investment property or share portfolio, or leverage to enjoy your lifestyle more now, such as purchasing a house or a car. Understanding that most of us will need to have some personal debt at least, the challenge comes with managing your debt while you are on the journey of life.

Many people will put pressure on themselves to focus on paying down their mortgage as quickly as possible. While this is financially sensible, it requires a long term focus and discipline that would be difficult to maintain for most, particularly if you are not able to enjoy life as you go along. If you are forgoing too many things then this strategy can be depressing and lead to unhappy parents and an unhappy home. Yes paying down your mortgage as quickly as possible is a good idea, but doing it with realistic savings after making sure your family is enjoying a fulfilled life is a far more enjoyable journey.

A Certified Financial Planner skilled in preparing financial projections for you can certainly assist in giving a different perspective on your financial situation. For example, they could show you that by keeping a very tight budget of \$45,000 pa say, would allow you to pay off your mortgage in 12 years time and allow you to spend \$60,000 pa during retirement. If instead you kept your budget to a more comfortable \$50,000 pa, you may be projected to have your mortgage paid off in 15 years time (3 years later) with retirement spending at a lower but still comfortable \$50,000 pa. Alternatively, in your situation, by spending \$10,000 now on a holiday (funded by drawing from your mortgage) you may be projected to pay off your mortgage 1 year later and drop retirement spending by \$500 pa. This trade off may be quite acceptable to you.

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The attraction here is that by reframing your financial situation in a different way may show you that you are more comfortable than you realize, your preferences may not be as financially detrimental as you fear, and this may free your mind up to consider enjoying life more.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au