Don't Pay off Your Mortgage!

Increase it! Bigger is Better!

Equity can't help pay for college expenses, vacations etc. or more importantly increase your retirement income. This isn't what we were taught, the dream from most Americans is to have their mortgage paid off and the sooner the better. "Pay off your mortgage, reduce your debt and build up equity." Why?

Your House isn't an investment vehicle, so don't treat it like one. Owning your home outright is like stuffing money in your mattress; that money/equity isn't making you money.

The Rate of Return on Equity is Zero

No matter where your property is located, the return on equity is always the same – zero!

> *Equity grows as a function of real estate appreciation and mortgage reduction: A mortgage won't stop you from building equity in your home.*

Keep your Equity out of your Real Estate

Real Estate equity is no safer than any other investment whose value is determined by a market, which we have no control. Moving your equity out of your home can achieve safety of principal. Don't add that extra payment each year, or increase your monthly payment to reduce the principal, the rate of return is Zero!

Not paying down your mortgage can increase your Liquidity, increase your flexibility, and provide you a rate of return, while maximizing your tax benefits. There is value in controlling your Equity!

> *Separate as much equity from your home as is feasible to achieve greater liquidity, safety of principal, along with funds to supplement your financial income.*

Separate Equity from Real Estate

Liquidity > The most important reason to keep equity separated from property.

Home equity is not liquid, as mentioned above. Your home is not an investment. Your equity is an investment that should be providing you a rate of return, preferably on a tax advantaged basis. Allow your mattress money to earn a rate of return.

KFS KELM FINANCIAL SERVICES INC. Since 1987

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Tax Deduction: Take Whatever Benefit Washington Gives You!

A mortgage is Cheap Money: In fact, it's the cheapest money you can borrow. Where can you borrow hundreds of thousands of dollars for 30 years or in some cases 40 years?

Mortgage Interest & Tax Benefits

The Real Cost of Tax-Deductible Interest: Assumption 35% Tax Bracket

Interest Rate	4.00%	5.00%	6.00%
Less Tax Benefit	-1.40%	-1.75%	-2.10%
Effective Interest Rate	2.60%	3.25%	3.90%

Eliminating mortgage interest expense through traditional methods eliminates one of your best partners in accumulating wealth and financial security.

Putting yourself in control of your home equity

If I were your Financial Consultant and offered a particular investment for your consideration, you would likely ask the following questions:

1. Would my money be safe?" Is the investment guaranteed and/or insured? What element of safety is inherent in the investment?
2. "How liquid would my money be?" In other words, you would want to know how easily you could access your money at any given time if you needed it. Liquidity is probably the number one consideration for any prudent investment.
3. "What rate of return can I expect?" Most people are usually willing to give up a little safety to get a little return. Even depositing money in a bank requires that we give up some safety to obtain some rate of return. We all want maximum return at minimum risk.
4. "What about tax consequences?" A tax-advantaged investment will, in the long run, achieve **A higher net rate of return by virtue of its tax benefits**.

Many of you have probably heard the old adage: "There are two kinds of people in the world: those who pay interest and those who earn it." This is true to an extent, but more correctly, the adage should say: "There are three kinds of people in the world: those who pay interest, those who earn interest, and those who pay interest in order to earn greater interest"- just like highly profitable banks and credit unions!

Refinance Case January 2015

Example: $325,000 Home No Mortgage Property Taxes $1,035.00 & Home Owner's Insurance Coverage/ Umbrella $309.00 monthly. Previous accelerated mortgage payment $2,100.00

Refinance: New mortgage $240,000 maintains 26.12% equity (no pmi)

25 year loan, 4% fixed interest rate, monthly payments $1,266.81

Rate of Return on Equity: Where to put your Money. Personal Pension Plan the 1099 Never Strategy EIUL*

Client Age 52 Summary of Proposed Illustration at 7.5%* rate of return

Plans to retire at age 67, needs supplemental retirement income, security to payoff mortgage in the event of death, the ability to payoff the mortgage at retirement.

Set Up Equity Indexed Universal Life Policy (EIUL)* Parameters maximize the growth of the equity, along with income on a tax free basis, maintain flexibility & liquidity. Designed to maximize fund policy over a 6 year period at $40,000 a year to the IRS/MEC limits.

Immediate Death Benefit $725,611.

Tax Free Income Available at age 67, $45,080.00* at age 85

Total Paid into policy $240,000 with $856,536* withdrawn. Balance at age 86, $173,941*

<u>Rate of Return 7.5% effective interest rate 2.60%, which provides a 4.9% Tax Free Return on Equity*</u>

Let Uncle Sam & the IRS be of Help.

By eliminating interest expense through the traditional method of making extra principal payments against your mortgage, you are eliminating one of the largest tax deductions still available. This partner is Uncle Sam, who can truly help you accumulate a larger degree of wealth and financial security.

*These are non-guaranteed figures, they will be higher or lower. The 25 year historical index crediting for this period has been 8.6%, which is the lowest over the past 30 years. Illustrations and Summaries included.

***Tax-Free Income and or Distributions are based on using partial surrenders and zero or low cost policy loans, with the policy structured and funded with the IRS/MEC guidelines. The policy must remain inforce to avoid a taxable event. Kelm Financial Services, Inc. does not provide legal advice or tax calculations.**

Equity is Zero

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