LESSON · HOUSING

Should You Pay Off Your Mortgage Before Retiring?

Retiring without a mortgage feels great, and it lowers the paycheck you need. But how you pay it off matters as much as whether you do. Here's how to weigh it.

Read time: 6 minutes **Level:** Foundational **Includes:** Knowledge check

Few financial goals feel as good as owning your home outright. A paid-off house means one less bill every month and a smaller paycheck needed from your savings. But money used to pay off a mortgage is money you can't easily get back, and where that money comes from can create a surprise tax bill.

The case for paying it off

- **A guaranteed return.** Every dollar you prepay "earns" your mortgage rate, risk-free. On a 7% mortgage, that's hard to beat with safe investments.
- **A lower paycheck to fund.** No payment means you need less income each month, which can mean smaller withdrawals and lower taxes for years.
- **Peace of mind.** Many retirees simply sleep better with no debt on the house.

The case for keeping it

- **Liquidity.** Cash in the bank can pay for a new roof, a medical bill or a market drop. Money in your walls can't, without selling or borrowing.
- **A low rate.** If your mortgage is at 3% and safe savings pay more than that, paying it off early may cost you money.
- **The deduction is usually gone anyway.** Mortgage interest only helps if you itemize. In 2026 the standard deduction for a married couple is $32,200, plus $1,650 for each

spouse 65 or older, and a separate senior deduction of up to $6,000 per person from 2025 through 2028 (it phases out above $150,000 of income on a joint return). Most retirees don't itemize, so the interest often saves nothing on taxes.

A worked example

A couple retiring at 65 owes $120,000 at 3.5% with 10 years left. Their payment is about $1,186 a month, or $14,232 a year.

Three ways to handle the mortgage

APPROACH	WHAT IT COSTS	WHAT TO WATCH
Pay off from cash or a taxable account	$120,000, plus any tax on gains if investments are sold	Keep enough cash for emergencies
Pay off from a traditional IRA in one year	About $150,000 withdrawn to net $120,000, at a 20% combined tax rate	Higher tax bracket, and Medicare IRMAA surcharges two years later
Keep paying as scheduled	$14,232 a year for 10 years	Needs a slightly larger paycheck until it's paid off

Illustrative. At 3.5%, keeping the mortgage and leaving savings invested can be reasonable. At 7%, paying it off becomes more attractive.

The IRA trap

Pulling a large sum from a traditional IRA or 401(k) in one year is the most common mistake. The whole withdrawal is taxable income. It can push you into a higher bracket, raise your Medicare premiums two years later through IRMAA, and, before 65, cost you ACA health insurance subsidies. See the IRMAA lesson for how the surcharge works.

A middle path

1. **Pick a payoff year,** such as the year you retire or the year you start Social Security.
2. **Prepay steadily** from cash flow while you're still working, rather than in one lump sum.

3. **Keep a cash cushion.** Don’t empty your emergency fund to finish early.
4. **If you use retirement accounts,** spread withdrawals across several years to stay in a lower bracket.
5. **Compare your rate** with what safe savings pay today, and revisit the decision if rates change.

How Blueprint approaches this

- Your **Housing** line includes your mortgage payment, along with taxes, insurance and upkeep. If the mortgage will be gone when you retire, choose to adjust your retirement budget and leave the payment out.
- Blueprint builds federal and state taxes and Medicare costs, including **IRMAA**, into your monthly paycheck, so you can see the cost of a large withdrawal.
- With Plus, a lump-sum payoff can go in as a **Future Large Purchase**, paid from your Growth Engine, with a **Funding Gap** flag if Growth can’t cover it.
- A **what-if scenario** (Plus) compares paying it off with keeping it, side by side.

Before you pay it off:

- [ ] Note your rate, balance and years left
- [ ] Compare your rate with what safe savings pay
- [ ] Check whether you actually itemize
- [ ] Decide which account the money would come from
- [ ] Keep an emergency cushion
- [ ] Test the payoff against your paycheck and taxes

KNOWLEDGE CHECK

Test what you just learned

Answer four quick questions to test what you just learned.

1. What does prepaying a 7% mortgage effectively earn?

> A. Nothing
> B. A guaranteed 7%
> C. Whatever the stock market returns

2. Why does mortgage interest often save retirees nothing on taxes?

> A. Most retirees take the standard deduction instead of itemizing
> B. Mortgage interest is never deductible
> C. Retirees don't pay taxes

3. What's the risk of paying off a mortgage from a traditional IRA in one year?

> A. There is none
> B. A big taxable withdrawal can raise your bracket and Medicare premiums
> C. The IRA closes

4. Which is a sensible middle path?

> A. Empty your emergency fund
> B. Prepay steadily toward a payoff year while keeping a cash cushion
> C. Take a new loan to pay it off

Part of **Housing** in retirement: **See the full Housing guide →**

Sources: IRS, tax inflation adjustments for tax year 2026; Q3 Advisors, "The 2026 Standard Deduction and the New Senior Deduction."

Blueprint Tomorrow provides educational planning tools, not individualized investment, tax, insurance or legal advice. Nothing in this lesson is a recommendation to take any specific action with your accounts. Tax figures are for 2026 and change each year; confirm your situation with a tax professional.