How Today's Low Mortgage Rates Can Help You Boost Your Retirement Savings

Today's low interest rates can be a bane for savers, including retirees relying on interest income. But there's another side to this coin: those same low rates may also be a positive for folks saving for retirement.

Imagine if today's low rates give you an opportunity to move into retirement mortgage-free. Take a look at this scenario to see the possibilities.

Say a 50-year old couple has an $185,000 balance on a $225,000, 5.75% 30-year mortgage on a home purchased five years ago. Principal and interest payments are $1,080 a month and, as things stand now, they'll still be paying off the loan when they're 75. That $1,080 could put a real crimp in their retirement cash flow.

Instead, let's assume they refinance the balance with a 15-year, 3.00% loan (subject to credit approval). Despite the lower rate, cutting the term will result in a higher payment. The payment will rise $198 a month, hiking up their out-of-pocket cost by about $35,640 over the next 15 years.

But the benefit is significant. They'll retire the loan and own the house free and clear ten years earlier than with the first loan. Plus, they will be mortgage free at age 65, whereas with the old loan, the couple would still owe more than $130,000 at that point. That's the power of today's low interest rates.

While interest rates are not expected to increase in the near future, since the Federal Reserve Board recently indicated that rates would stay low until at least mid-2014[1], the sooner you refinance to take advantage of today's low interest rates to reduce your monthly payments or shorten the life of your mortgage, the sooner you can begin to take advantage of today's low rates. Give your nearest PNC Bank a call today so we can work together to help you achieve your retirement goal.

(1) Source: Federal Reserve, January 2012.