Sam's Economics

Pay it off, keep it, or slice it?

What paying off a mortgage from an IRA in retirement really costs in tax and Medicare surcharges, when keeping the loan wins, and the two-step payoff that beats the lump sum.

SAME HOUSE, SAME IRA, ONE DECISION

$193,190

After 20 years, keeping the loan leaves Greg and Elena $193,190 ahead of a one-shot payoff from the IRA. Slicing the payoff over two years saves $15,155 in tax and avoids the Medicare surcharge.

1. The couple and the assumptions

INPUT	VALUE
Ages at payoff	64 and 64
Traditional IRA	$1,500,000
Living costs taken from the IRA	$50,000 a year
Mortgage balance, rate, years left	$200,000 · 3.25% · 20 years
Principal and interest	$1,134 a month ($13,613 a year)
Property tax and insurance (stay either way)	$9,000 a year
Return after inflation / inflation	4.5% / 2.5%
Tax	2026 federal brackets, married filing jointly, $32,200 standard deduction, no state tax

2. The three numbers

NUMBER	WHAT IT IS	GREG'S ONE-SHOT PAYOFF
1. The gross-up	To net $200,000 from a traditional IRA on top of $50,000 of income, the withdrawal fills the 12%, 22% and 24% brackets.	$246,958 withdrawn, $46,958 tax (about 19%)
2. The Medicare line	Part B surcharges (IRMAA) use income from two years earlier. The 2026 first line for a couple is $218,000.	$296,958 income, tier 2: about $4,870 extra for the couple, one year
3. The real rate	(1 + 3.25%) ÷ (1 + 2.5%) − 1	0.73%, against a 4.5% real return

Tax plus surcharge: about $51,828, to remove a loan whose remaining interest over 20 years is $72,254.

3. Three paths, twenty years

PATH	HOW IT WORKS	IRA AFTER 20 YEARS
Greg's way: one-shot payoff	$246,958 out in one year; IRA drops to $1,253,042; no payment	$1,370,777
Sliced payoff	Two withdrawals one year apart, both under the Medicare line	$1,413,441
Elena's way: keep the loan	Payment taken from the IRA with its tax; worth about $10,900 a year in today's dollars by year 10 and $8,515 by year 20	**$1,563,967**

When the answer flips (keep minus pay off, after 20 years)

MORTGAGE RATE	REAL RETURN	RESULT
3.25%	4.5%	Keep ahead by $193,190
5%	4.5%	Keep ahead by about $124,558
6.5%	3%	Pay off ahead by $756 (a tie)
7%	2%	Pay off ahead by about $46,757

The rule: pay it off when the real cost of the loan is higher than what the money can reasonably earn after tax.

4. The sliced payoff

STEP	WITHDRAWAL	INCOME THAT YEAR
Year 1: first slice nets $100,000; regular payments continue	$117,385 + the year's payment with its tax	about $184,837
Year 2: balance about $89,482 paid off	$103,899	about $153,899
Total tax on the payoff	**$31,802** (vs $46,958 one-shot): **$15,155 saved**, no Medicare surcharge	

Paying off the mortgage doesn't pay off the house. Property tax and insurance ($9,000 a year here, two-thirds of the old payment), repairs and replacements continue. Unpaid property tax can still cost you the house.

5. Checklist

- [ ] My real mortgage rate (rate minus inflation) is ____%. Under 2% is cheap money.
- [ ] I know where the payoff money comes from. From a pre-tax account, the real cost is often 20% or more above the balance.
- [ ] I checked this year's Medicare lines, remembering the two-year look-back.
- [ ] If I pay it off, I slice it across two or three tax years.
- [ ] I keep a cash buffer outside the house.
- [ ] Near a bracket edge or Medicare line, I talk to a tax professional first.

6. Your numbers

ITEM	MY ANSWER
Mortgage balance / rate / years left / monthly payment	
Real rate: (1 + rate) ÷ (1 + inflation) − 1	
Where the payoff money would come from	
Gross withdrawal needed and its tax (from the calculator)	
Income in the payoff year vs this year's Medicare line	
Sliced plan: year 1 and year 2 withdrawals	
Cash buffer kept outside the house	

Questions for your CPA or advisor

1. How much would I have to withdraw to net the payoff, and what is the tax at my bracket?
2. Would the payoff push my income over a Medicare surcharge line two years from now?
3. Can the payoff be split across tax years, and what is the best split?
4. Would paying from savings or a taxable account be cheaper than from my IRA?
5. How would my state tax change the answer?

General information, not financial, tax, legal or medical advice. Figures are illustrative, in today's dollars, with a constant real return; Part D surcharges and state tax are not included. Tax brackets, Medicare thresholds and premiums change every year; confirm current figures at IRS.gov, Medicare.gov and SSA.gov. Run your own numbers in the free calculator at aitaconsultinginternational.com/payoff-or-keep-calculator/. Sam's Economics.