Real Estate and Your Retirement

Contributed by John Harris

Many people are looking for ways to increase their retirement income. For most of these individuals, their homes are the greatest asset. A large section of the aging population has failed to plan effectively in order to have sufficient savings at retirement. They now are looking to their real estate to supplement their retirement income.

Real estate values are very unpredictable, especially now with the decrease in the real estate bubble. Prices are falling in some cities and flattening in others. It will take some planning to get the most from selling your real estate to supplement your retirement.

Be Realistic. To plan effectively, you must be realistic about the price you may get for your home. Real estate is an up and down market, so you should assume a traditional real estate market for valuating your home, with gains in value equal to the inflation rate. At retirement, you will have the same purchasing power you currently have. If gains in real estate values are better than the inflation rate, then you will have more. Just don’t count on it.

Get the Most from Your Real Estate. People used to work hard to pay off their mortgages for homes they planned to raise their children in and retire. Since 1989, the number of people 65 and older with mortgage debt has nearly tripled, adjusting for inflation. Making payments on real estate in retirement years will deplete your savings and retirement income faster than any other expenditure.

There are three reasons to pay off your real estate mortgage — (1) decrease expenditures in your retirement years, (2) use the mortgage interest rate that you will save to increase your retirement savings, and (3) build more equity, in case you need it as income on which to live later. Paying off your mortgage is a good thing to do, regardless of what the real estate market is doing.

Downsize Your Home. If you are living in a home that is larger than what you need, do not hold on to it for sentimental reasons. Selling the larger home for a smaller one can: (1) give you a smaller mortgage payment than you currently have, or (2) purchase a smaller home outright with no mortgage. It also means less physical upkeep by you, as well as less maintenance and repair costs in the future during retirement. Please keep in mind that there will be selling, moving and new home renovation costs that must be deducted from the sale proceeds.

Sell the Extra Real Estate. If you have a second home or vacation real estate that will not be your retirement residence, you may wish to sell this extra real estate now, putting the sale proceeds into your retirement savings. You can put the mortgage and annual upkeep payments for this property into your retirement savings, too.

Reverse Mortgages. Though these products have been around for some time, we are hearing a lot about them lately. Such mortgages give you 50 percent or more of your home’s value with no mortgage payments, which are collected by the lender at your death or if you sell the real estate.

Beware! Reverse mortgages should be used only as a last-ditch effort at survival. The interest and fees added to your mortgage debt can be very costly. If you must consider a reverse mortgage, here are a few smart tips:

• There are only a few reverse mortgage products now on the market, but others are coming soon. So, wait two or three years to garner more options and possibly better products.

• You must be 62 to qualify for a reverse mortgage loan, but wait as long as possible to take such a loan. The younger you are, the smaller the loan and higher the cost over time.

• Check out all of the products on the market and get independent financial counseling on the best one for you. They may look the same upfront, but the number of years and the loan value differ greatly between products, as well as the costs over time.

• Do not buy into the hype! Mortgage brokers receive a large commission on these products. If you feel you are being pushed in this direction, check out other lenders.

• Plan ahead. If you move and sell your real estate, the lender receives all that is due on the reverse mortgage from the sale proceeds. This could actually leave you in a worse financial state.

About The Author
John Harris is an expert researcher and writer on real estate topics such as economics, credit improvement tips, home selling advice and home buying preparations. For more on San Diego Homes for Sale visit http://www.twtrealestate.com.