

Retiring With A Mortgage



While paying off your mortgage before retiring may seem like a logical plan, a growing number of Americans are counting a monthly house payment among their retirement expenses. An August *Bloomberg* article reported that according to a May analysis by the Consumer Financial Protection Bureau, Americans age 65 and older with mortgage debt rose from 22 percent in 2001 to 30 percent in 2011, with loan balances increasing from \$43,400 to the median amount owed of \$79,000.

If your mortgage won't be retired before you are, the planning question becomes whether to pay off the loan and eliminate that expense in retirement or try to reduce your monthly payments to free cash in your current budget that you can invest for retirement.

That depends on the form of your retirement assets. If you have the cash in savings or low-paying interest-bearing accounts, you might consider paying off the mortgage, as the interest you pay will likely be more than the interest you earn.

If the bulk of your assets are in IRAs or 401(k)s, it may be best to resist the urge to withdraw a large amount and relieve yourself of your biggest piece of debt. Early withdrawals from a qualified account – meaning before age 59½ – may require payment of an IRS penalty, and you'll face an income-tax bill on the proceeds at any age. After retirement, using systematic withdrawals from IRAs or 401(k)s to make monthly house payments can help spread out the tax burden and keep you eligible for the mortgage-interest tax deduction.

Refinancing your mortgage at a lower interest rate can reduce payments, as can extending its length to spread the balance over more years, although that may cause you to pay more overall in interest. Selling your home and purchasing a smaller one may also be an option, and depending on equity, you may have money left over to invest for your retirement years.

Entering retirement with a mortgage may not be ideal, but it can be done, especially as part of a comprehensive retirement plan. Call our office to discuss your residential plans and how your options can impact your overall retirement finances.