



Retirement: Should you pay off that mortgage when you retire?



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It was different back in the day. You worked 30 years, got a watch and a pension. Your health care was probably provided by your company's retiree insurance plan, or even your union.

And a highlight of retirement was the ceremonial burning of the mortgage as mom and dad began retirement debt-free.

That's how our parents did it. But there's no chance we'll see anything like that. As they say, it's not your father's retirement anymore.

Today, your pension has likely been replaced by a company-sponsored 401(k) plan that, mostly, you fund yourself. Few companies offer health insurance for retirees anymore, and those who still do are eliminating or scaling back.

And your mortgage? Increasingly Americans are going into retirement with big debt, especially mortgage debt.

"More people are carrying mortgages into retirement," says Katherine Dean, senior vice president of wealth planning at Wells Fargo Private Bank.

According to a new report, *Baby Boomers & Their Homes: On Their Own Terms* – released last week by The Demand Institute, a think tank jointly operated by The Conference Board and Nielsen, Baby Boomers are carrying much more mortgage debt than earlier generations at this life stage.

And 40% were planning major home improvement projects over the next year, which would increase that debt.

Other findings of the survey of more than 4,000 Boomer households (ages 50-69):

- For Boomer movers, the common wisdom says to downsize. But most are actually looking for nicer homes and more space, not less. In fact, 45% of movers will upsize, and 56% of those who plan to move will take out a new mortgage.
- Meanwhile, most Boomers who currently own their own houses still owe money on those homes. The median outstanding mortgage balance for a 50- to 69- year-old household has grown 142% since 1992.

So, the big question for those looking at retirement: Should you pay off your mortgage when you retire?

And the answer is: It depends.

"There is no yes or no answer. It depends on the individual situation," says Dean. "The reason we see more people carrying mortgages into retirement is not by choice. It's their inability to pay it off, and under-saving for retirement."

"It depends on the individual situation," says Dean. "There's a lot of reason to continue to take a mortgage into your retirement years if you benefit from the tax rates and you have enough income. You wouldn't necessarily be in a hurry to pay that off, especially if you have a low interest rate."

Jeff Warnkin financial adviser at, JL Smith Group in Avon, Ohio, says even though there is no yes or no or right or wrong answer, he prefers clients to pay off their mortgage.

"I'm in favor of paying off the mortgage, as long as it doesn't come at the expense of funding your 401(k), Roth IRA and things of that nature," he says.

Still, he says, It is not a stand-alone decision. It should be part of a larger plan. "Ideally, I'd like to see the last payment coincide with the date you retire. A fair number, 50% of our retirees, achieve that. But, as life unfolds, sometimes people have to take a home equity line, or help a child with a down payment on a house, medical issues, and sometimes they arrive at or near retirement with a mortgage."

The planners agree that you should not take money from your retirement account to pay off a mortgage. Dean notes that you have to pay taxes on money you take out of your retirement account to pay off your mortgage. "If you have taxable accounts and have these funds sitting here, and you don't want to carry it, pay it off. But it's a better decision to use a taxable account."

What's the best way to pay off a mortgage in retirement? Pre-retirees have two choices. The best way to have a mortgage at zero on day one of retirement is to prepay the mortgage, says Warnkin. "The second method would be to make one half of your monthly mortgage payment every two weeks. It not only reduces your interest, but over a 12-month period, you end up making 13 payments instead of 12."

Emily Sanders, managing director at United Capital in Atlanta, looks at a mortgage in terms of how many years before it's paid off, as well as the interest rate. "Many folks in America have refinanced mortgages when interest rates have been low. It's the higher interest rate mortgage, higher than 5%, that would be more of an impetus to see about getting it paid off."

"In general, if client has the liquidity to pay off the mortgage — a lump sum from their job, retirement funds that are available but not heavily taxed — we would encourage them that to pay off a mortgage to enter retirement as close to debt free as possible," Sanders says.

Sanders says another wrinkle has to do with tax deductibility. Sometimes a client believes the mortgage interest is tax deductible, and when she drills down, she finds that it is not fully deductible for some high-earning clients.

"They are not getting as much of a deduction on mortgage interest as they thought."

"It's a very complex question. It depends on the taxpayer's circumstance — how large the mortgage is and how high the interest rate is," Sanders says. "If there are only a few years left and a low interest rate, it might be fine to just let it mature. We typically advise clients that you don't want to be paying a mortgage when you're 90 years old. It might make sense to refinance from 30-year to 15-year if they can't pay it off right now. In that case we advise clients to refinance before they retire. Some banks don't look too favorably on retirees' mortgage applications."

John Gajkowski, co-founder of Money Managers Financial Group in Chicago, said when he sits down with clients to discuss the mortgage, there is a financial aspect and an emotional element. "If they can afford to continue to pay the mortgage financially, it makes sense because it gives them greater control of their money. The house keeps appreciating. And they still have control of their money. They have two assets working for them, as opposed to having all the money in the house.

"Some people, even though they can afford to pay a mortgage, emotionally they want to get out from underneath it," Gajkowski says. "They want to be free and clear. We have to figure out what is more important, emotional or financial."

"A lot of people had that in your head what, that's what you do," says Dean. "You pay off your mortgage when you retire. And they get uncomfortable if they don't achieve that goal. If you can get past that, there are benefits from a tax perspective. It depends on the individual."