

Retirement Readiness Report

Helping older employees get ready to retire successfully

A free report for employers, unions, and pension funds, produced by RetirementWORKS®, Inc.

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Welcome to the thirty-first issue of the *Retirement Readiness Report*, offered as a free resource, to help you think about how your organization supports the transition into retirement.

We encourage you to contact us at any time if you have ideas, criticisms, or other comments about this publication, or wish to update your email address (or be added to or removed from the list).

If you missed issues #1 thru #30:

They're available at:

<http://www.retirementworks2.com/support.asp?id=newsletter>

Next month:

Retirement coaching, and its alternatives

Can housing save an under-funded retirement?

For many people entering retirement . especially middle-income employees, but sometimes also those at either extreme . their house is their largest asset. Larger than their retirement plan balance. Larger than their personal savings. Usually larger than any inheritance they are likely to receive.

As we have all been reminded in the recent recession, housing prices do not always go up, and mortgages can become so onerous that they sometimes exceed the value of the property. In such cases, a house can be an albatross. But while such problems are fresh in our minds, and for many people continue to be a real worry, we should also keep in mind that the recent situation has been exceptional. This recession was actually triggered by a crisis in home financing, and that makes it pretty much unique in American history. It's the exception, not the rule. Still, it's an important reminder that owning equity in a home is not the same as having money in the bank.

Yet home equity is special for several reasons: (1) it is, as we have noted, usually a big component of a family's balance sheet, unless they are renters; (2) it is not a liquid asset (you can get most of the equity out of a house, but it is not a quick or cheap process); and (3) a house is one of the few assets that we actually *use* every day, yet it generally retains or increases its value (unlike cars, clothing, furniture, and other goods that we use every day).

Since we live in our homes, and since we can't get our money out of them easily, we tend to think of them primarily as an element of our lifestyle, not of our wealth. Even more so than a defined contribution plan balance, home equity is hidden in plain sight. It's right there in front of us every day, yet we don't get periodic statements telling us what it's worth, and even if we did, if we like where we live, we rarely think of cashing it in.

When those of us who are homeowners and who are approaching retirement (or already there) do think about tapping the value of our homes, we mostly do so in a hypothetical, distant-future sort of way. Maybe some day we will need to take advantage of it, but it's not the sort of thing you do to pay the monthly bills.

But since so many Baby Boomers, and current retirees, too, are starting to realize that their retirement assets are not going to be as large as they had hoped, and that retirement itself may be more of a financial struggle than they expected, increasingly people are thinking about their homes as a source of potential retirement income.

This is entirely sensible, if regrettable. It's regrettable because home equity is instead almost ideal at serving a *different* purpose in retirement.

In retirement, we have expenses we can reasonably anticipate and estimate, and it is best to have a reliable source of income to cover those. But we also face substantial risks of various kinds that might result in large extra cash

needs eventually, and for these, it is nice to have a reserve fund.

A house makes a good reserve fund, partly because its value is substantial, and partly because, as noted, it is not too readily at hand, so we are not all that tempted to spend it on wasteful things. A house is much *less* well suited to providing a regular, permanent source of funds to co-

“Relying on home equity to help pay the regular bills probably means that it will not be there for you if you live into old age and need a reserve to help you pay for long-term care, or to cover for the fact that your other assets are running out.”

ver regular expenses, though, because withdrawals are not so easy to make, and because if we do too much of that, we not only run out of money, but we lose the house, too, and then need to find even more money for an alternative place to live.

By contrast, using a house to cover *future* contingencies can be

especially appropriate, because these are most likely to occur toward the end of life, when we may not even need a house any more.

The best example of that is if you live alone or if you end up as a widow or widower, and you need to go into assisted living or need long-term nursing care. At that point, you're unlikely to live in the house again anyway, so it's the perfect time to sell it, and use the money to pay for long-term care.

If you need money for other reasons . . . because you live a lot longer than you expected to, or your investments do poorly, for instance . . . you are probably fairly aged by then, and your home is probably a bigger place and more of a burden in terms of cleaning and maintenance than is ideal for you at an advanced age. So again, it's the right time of life to be selling and going to someplace smaller, cheaper, or both.

Meanwhile, relying on home equity to help pay the regular bills probably means that these options will not be available to you.

So it's best not to plan on using

your home equity to cover regular needs. If you really don't have enough resources to comfortably pay your regular expenses in retirement, the prudent and correct policy is to reduce the expenses. Otherwise you will always be living on the edge of disaster. Reducing expenses can be painful when it happens, and during the adjustment period that follows, but living on less, living more simply, and living without constant financial stress is not necessarily a bad way to live.

Of course, a house is itself one of the biggest ongoing expenses, especially if there is still a mortgage on it. Moving to a smaller house both reduces ongoing expenses and, normally, releases some cash that can be set aside for a rainy day. So that can be one of the smartest ways to extract home equity, especially if you can resist the temptation to spend the cash proceeds!

There are other methods as well: taking out second mortgages or home equity loans, or using reverse mortgages. Or some people prefer to keep their homes and their home equity, and if they

have extra space because the kids are gone, they might invite friends, relatives, or even strangers to move in and pay rent.

A house is a powerful financial instrument in many ways. All the more reason to avoid draining its values too early in retirement.

Recommended Reading for Employees Getting Ready to Retire

Changing Course: Navigating Life After 50, by William A.

Sadler and James H. Krefft

\$18.95, The Center for Third Age Leadership Press, 2007.

Notice: We do not sell books, or have any financial stake in recommending them.

Sadler and Krefft have written a book that is a bit long-winded in delivering its messages, but if you have the leisure to take the slow road toward, as they express it, creating the life *you* want, then this volume is well worth the price and the time.

It's worth it because they take a very smart approach to helping you answer a lot of very fuzzy questions, and the fact that they

take their time in doing so gives *you* the time to let it sink in, and mull it over.

This assumes that you (or the older employees to whom you might recommend this book) do want to change course in mid-life, or specifically at retirement. This is often a fair assumption these days, when people mostly retire with the expectation of many healthy, vigorous years still in front of them.

But rather than merely pointing out the different directions we can take and discussing the pros and cons, Sadler and Krefft discuss the *way* we make such decisions, in a pivotal chapter titled "Principles of Third Age Growth and Renewal."

They also encourage us to think of retirement as "graduation," not just an end to a career, but a commencement of something new. But what will the new thing be?

They cannot answer for us, of course, but they also suggest that neither can we. We need to be open to serendipity, while continuing to ask the critical question,

What makes our soul sing?+ They want us to construct a life we can be passionate about, but not necessarily assume that we can do so easily, or all at once.

Changing Course is not just theory and encouragement. Sadler and Krefft provide concrete help and suggestions so we can design our own new life portfolio.+

An excellent book for people who like to read and ruminate.

Featured Website

Options for Obtaining Cash from Your Home's Equity

www.RetirementWorks2.com/pdfs/Home_Equity-UNH.pdf

In the lead article this month, we allude to various methods of extracting the equity from one's home, but do not provide detail.

The PDF document on this month's featured web page fills that gap, by providing the next level of information.

It surveys six different methods of getting at home equity:

- Selling your house and moving someplace cheaper.

- Taking out (or refinancing) a traditional mortgage or second mortgage.
- Taking out a home equity loan or line of credit.
- Getting a reverse mortgage.
- Using a private annuity (an arrangement where a child or other party agrees to pay you for life, while you live in the house, then receives full ownership when you die).
- Renting out part of your home.

The document explains the circumstances under which each of these possibilities makes the most sense, gives a brief explanation of how they work, and outlines some of the disadvantages and caveats you need to be aware of.

It also briefly addresses the question of whether you should take equity out of your home at all . though this discussion is generic, and may not be enough guidance for a particular situation.

This paper does not provide all the answers, and before you or one of your employees or retirees

makes an actual decision, it would be necessary to check out all the particulars that would apply in that situation.

But this is a very helpful overview of what the options are, and in most cases it will probably be enough to help eliminate a few of the possibilities.

It also refers the reader to additional resources that provide appropriate additional information, including sources for finding current bank lending rates.

About RetirementWORKS[®], Inc.

We are the consumer subsidiary of Still River Retirement Planning Software, Inc., of Harvard, Mass., which has specialized in retirement plans and retirement planning since 1994.

Our philosophy is that retirement needs to be viewed from the retiree's point of view, in all of its complexity. So we offer the most powerful and useful financial software available anywhere for retirees and near-retirees, and advice concerning non-financial aspects of retirement. But we do not sell any financial products or services other than software, and have no financial stake in any advice that is offered.

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