

Real Estate and Retirement Planning

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When you sit down with your financial advisor to plan your retirement, remember to assess the value of real estate ownership and investment as tools to maintain your lifestyle or pay your expenses.

Owning real estate can keep a roof over your head but it can also bring you a stream of income to care for you well into your golden years. Smart real estate investments can help boost your total wealth and reach your retirement goals.

Here just a few of the ways real estate can support your overall retirement plans:

When to Pay Off Your Mortgage

Most people want to have their mortgage paid off by the time they hit retirement so social security checks can pay for other living expenses like food or medications. However, you don't need to pay it off sooner than is necessary. When you hit retirement and still have other outstanding debts, you may be better off *NOT* paying off your mortgage early. Available income can pay off high-interest debts such as credit cards, cars, college loans for the kids. And you can continue to receive a tax deduction on any mortgage interest.

If you want to retire at age 65 and have your mortgage completely paid off, you might want to establish that 30-Year term mortgage by the time you are age 35; if not you may need to make plans for generating extra income or tapping into your existing equity.

Reverse Mortgages in Retirement

If there is equity in your home – the value of the home is greater than the total amount you owe – are over the age 62 and plan to continue living in your home, you may qualify for a reverse home mortgage. These federally regulated loans allow senior owners to use their home as collateral for cash to pay for living expenses, medical care and more.

A reverse mortgage lender will establish an annuity which will guarantee the homeowner a lump sum payment or monthly stipend for the rest of your life (or the life of your qualified spouse). Your beneficiaries can choose to pay the loan principal and interest to retain the property or sell it to pay off the reverse mortgage. In the event that the home does not have enough market value to cover the debt, the Federal Housing Administration will make up for the shortfall with lenders.

Real Estate Investments and Rental Properties

You are not guaranteed income from a rental or property investment, but a savvy retiree with some DIY knowledge and expert advice can maximize the return on investment.

Purchasing rental property or flipping real estate can be excellent sources of income after retirement. As a landlord you will be responsible for repairs, reporting the income and paying taxes on the income (unless the property is owned through a Roth-IRA). And investors looking to sell want to manage their financing and tax expenses. It is important to ensure you can handle the extra fees, capital gains, responsibilities and taxes associated with these investments.

Real Estate Investment Trusts (REITs)

A REIT is a security which sells like a stock and generates revenues through rental properties or mortgages. Investors are paid a steady dividend while the company receives attractive tax benefits.

Investors can see high yields without having to be tied to the responsibilities of managing your own properties. And REITs are required to return 90% of net income to its investors. You may want to consider dedicating a portion of your retirement portfolio towards investing in an REIT mutual fund.

When you sit down to plan your retirement, take stock of every option available to you. Measure the benefits and drawbacks against your specific financial situation and take smart steps towards reaching your retirement goals.