

# MAY

## 2024

# THE ROAD TO RETIREMENT

OUR MONTHLY GUIDE TO EVERY MILEPOST, JUNCTION,  
AND LANDMARK ON YOUR ROAD TO RETIREMENT.



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## WHAT'S ON OUR MINDS THIS MONTH

May is “National Home Improvement Month” – or at least, that’s what the real estate and construction industries call it. The name makes sense because as spring turns into summer, people are most likely to start renovating their houses, landscaping their yards, and redecorating their interiors.

In retirement, the question of housing takes on a whole new significance. Many pre-retirees and retirees wonder whether they should move, downsize, buy a second home, or use the equity they’ve built up to help pay for retirement. So, in this issue, we’re going to look at three common questions about housing many retirees have.

Have a great month!

# WHAT'S AROUND THE BEND: SHOULD I TAKE OUT A REVERSE MORTGAGE?

Saving for retirement is hard. Some people don't start early enough. Others are hampered by health issues, unexpected expenses, or changes to employment. That's why more and more people use the equity in their homes to fund retirement.

One way to do this is through a **reverse mortgage**. It's an increasingly popular tactic—but is it right for you?

A reverse mortgage is essentially a way to convert your home equity into cash. To qualify, you must:

- Be a homeowner (naturally)
- Be at least 62
- Have significant equity in your home
- Have the financial means to continue paying property taxes and insurance.

If you meet those requirements, a bank will provide a loan on your house, much like a normal mortgage, with the house itself as collateral. You can earn interest for as long as you have the loan, and when the loan comes due, you only have to repay whatever the home is worth.

The amount of the loan depends on several factors, like your age and the value of your house. Typically, the older you are and the more expensive your house, the larger the loan.

Once you no longer reside in your house, the loan comes due. This can happen because you have moved to a different house or relocated to a retirement community or nursing home. The loan will also come due if you pass away while still living in the house, at which point the lender will sell the home and keep the proceeds.

QUOTES WE'VE  
BEEN THINKING  
ABOUT:

**“The desire for gold is not for gold. It is for the means of freedom and benefit.”**

— RALPH WALDO  
EMMERSON

The loan itself can be taken in one of three ways: lump-sum, annuity, or line of credit. If you choose to do a line of credit, it can increase in value over time, and you can access it whenever you want.

However you choose to take the money, you can apply it to retirement in several ways. For example, it could be used to cover living expenses, or as a safety net in case your other investments decline in value. Some people even use it to make improvements on their house.

While this all sounds great, the fact is that, for some people, a reverse mortgage just isn't a good idea. For example, say you want to leave your house to your children or other heirs. In order for them to keep the house after you pass away, they would need to repay the loan themselves. That's probably not something they want to do.

People with poor health should also think twice. That's because if your health requires you to move to a nursing facility or live with other family members, the loan will come due, at which point you'll have six months to repay. That can put a lot of financial pressure on you or your family.

Finally, there are many costs you will need to pay upfront in order to take out a reverse mortgage. Lender fees (which can be fairly high), insurance, closing costs, appraisal, and other fees...it's not the simplest way to save money for retirement.

Ultimately, a reverse mortgage is a double-edged sword. Whether it's right for you or not can only be determined by carefully looking at your own goals, needs, and assets.



# WHAT'S OVER THE NEXT HILL: 2ND HOME VS. TIMESHARE



Do you have a favorite spot on the coast? A beloved ski resort you like visiting every winter? A location far out in the desert where the only sound is that of your own thoughts? If so, you're not alone. Everyone loves the idea of spending large chunks of retirement at their favorite vacation destination. But what's the best way to do it? For many, the decision comes down to buying a second home or purchasing a timeshare. Each option has pros and cons, both for your lifestyle *and* as a financial investment. Let's look at a few basic ones:

## Pros of Buying a Second Home

- With a second home, you own the property, which means you can do what you like with it, when you want to, as much as you want to.
- A second home can help you potentially generate more income in retirement, as you can rent it out on either a short-term or long-term basis.
- Vacation/second homes can sometimes appreciate in value over time if you ever decide to sell.

## Cons of Buying a Second Home

- Buying a second home is usually far more costly, both in terms of the initial purchase and ongoing expenses.
- If you decide to rent your second home, that effectively turns it into a kind of business, requiring additional work and oversight from you. You may not want to spend your time doing that in retirement.
- If the home does depreciate, you will be putting more of your capital at risk.

## FUN FINANCIAL FACT

**On average, summer is the second most expensive season of the year. A survey of 1000 adults found that poll participants reported spending an average of \$2,229 in the summer, while spending \$2,314 in the winter, \$2,064 in the fall, and \$1,952 in the spring.**

SOURCE: [SUMMER SPENDING STATISTICS](#)

## Pros of Buying Into a Timeshare

- Timeshares are often a more cost-effective solution, both initially and continually.
- If you only plan on spending a few weeks a year at the location, it may make more sense for your lifestyle.

## Cons of Buying into a Timeshare

- Timeshares are not really an investment. They are more likely to depreciate in value and can appreciate in cost.
- Timeshares can only be rented out for limited periods and under specific circumstances; many timeshares may not be able to be rented out at all.
- With the timeshare, you may not be able to use it when you want or as often as you want, as there will be other owners who have usage rights, too.

As you can see, the question of second home versus timeshare really boils down to what you're really looking for. An investment that you can use however you want? Or simply a way to spend a few days or weeks per year in your favorite vacation spot?

Neither option is wrong, or bad, but as with most things in retirement, the answer must be specific to your goals, needs, and financial situation.



# WHAT'S ON THE HORIZON: WHEN IS IT TIME TO DOWNSIZE?

There comes a time in life when, not only have our children grown and left the nest, but our *grandchildren* as well. That leaves many retirees wondering if their house is bigger and more expensive to maintain than they need. But it's a surprisingly loaded question. In most cases, when people wonder if it's time to downsize, they're not just talking about a house. They're talking about a *home*.

The home where they watched their children take their first steps. The same home with markings on a doorway, tracking how tall those children grew over the years. The same home that hosted family gatherings for holidays and celebrations. The same home where their most important memories were made.

All this means it's not a question that can be answered lightly – and there's certainly no one-size-fits-all solution. However, there *are* some good reasons to look at downsizing in the future if your personal situation demands it. For example:

**Health.** Many people consider downsizing due to health concerns. Maybe there are too many stairs to climb. Maybe the yard is a little too big to mow every week. Maybe your home is a little too far from the doctor's office. If you ever consider downsizing due to your health, I would recommend consulting your physician first. Especially because, if health is your primary motivator, it may be wise to look at moving into a retirement or long-term care community rather than merely a smaller house.

**Location.** Others will consider downsizing for geographic reasons. Maybe the grandchildren are being raised in a neighboring county. Maybe you want to downsize and split your housing costs between a summer and winter home. Maybe you have always dreamed of spending your retirement in some place exotic like Paris or Ibiza. In this case, downsizing and moving to a different area can get you closer to your dreams and desires.

**Cost.** Another consideration for downsizing is the associated costs/savings. Maybe you feel like you're paying more than necessary on your mortgage. Maybe you need more liquidity and want to sell and downsize to cash in on your equity. Maybe you pay a lot in taxes and HOA fees and could use a little extra cash each month.

The point is, make sure you have a very concrete reason for downsizing rather than doing it simply because you feel like it's expected. And if you are ever considering downsizing, give us a call first. We'd be happy to look at your situation with you, crunch the numbers, and help you make an informed decision.

# WATCHING THE WEATHER: MARKET CONDITIONS ON THE ROAD TO RETIREMENT (APRIL-MAY)

After a stellar first quarter, the markets were more volatile in April. That was largely due to three factors: GDP, inflation, and what both mean for interest rates.

On April 25, the U.S. Bureau of Economic Analysis reported that the economy [grew by 1.6% in Q1](#). This was significantly lower than what economists had expected. Many forecasts had GDP [rising by around 2.4%](#).

At the same time, new data came out suggesting that inflation may remain “sticky” for the foreseeable future. The Personal Consumption Expenditures (PCE) price index, which measures the change in the prices of goods and services purchased by all consumers in the U.S., [rose by 3.4% in Q1](#). That’s a big jump from the [1.8% mark](#) we saw in Q4 of 2023.

Because of these developments, most investors – who had previously expected the Federal Reserve to begin lowering interest rates – began acting under the impression that rate cuts were still a long way off. This is why the S&P 500 [fell by 4.2% in the month of April](#).

## HERE'S WHAT WE'RE KEEPING AN EYE ON IN MAY & BEYOND

The combination of slower-than-expected economic growth and rising inflation has some investors concerned about the possibility of **stagflation**. While we’re still a long ways away from that, consumer prices and GDP will continue to be the focus for some time. Investors will ponder whether the Federal Reserve can engineer a soft landing – where interest rates come down without prompting an economic recession – or a hard one.

As always, my team will continue monitoring everything on our end so you can focus on enjoying the coming summer. Have a great month!



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