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EPIC CAPITAL

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Should You Pay Off Your Home Before You Retire?

Before you make any extra mortgage payments, consider some factors.

Should you own your home free and clear before you retire? At first glance, the answer would seem to be "absolutely, if at all possible." Retiring with less debt … isn't that a good thing? Why not make a few extra mortgage payments to get the job done?

In reality, things are not so cut and dried. There is a fundamental opportunity cost to consider. If you decide to put more money toward your mortgage, what could that money potentially do for you if you were to direct it elsewhere?

In a nutshell, the question is: should you pay down low-interest debt, or should you invest the money into a tax-advantaged account that could potentially bring you a strong return?

Relatively speaking, home loans are cheap debt. Compare the interest rate on your mortgage to the one on your credit card. Should you focus your attention on a debt with 6% interest or a debt with 15% interest?

You can usually deduct mortgage interest, so if your home loan carries a 6% interest rate, your after-tax borrowing rate could end up being 5% or lower.

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If history is any barometer, your home's value may increase over time and inflation will effectively reduce the real amount of your mortgage over time.

Making mortgage prepayments may not be the right choice. It's important to look at the math and examine the tradeoff between prepaying your mortgage and tax-deferred retirement savings. In her MSN Money article *Should I Save More for Retirement or Pay Down My Mortgage?*, Stacy Johnson noted "For most people, mortgage interest is tax-deductible, retirement plan contributions are deductible and their earnings are tax deferred. This tax arbitrage makes retirement contributions a better choice, at least for some."[1]

You save taxes on each dollar you direct into IRAs, 401(k)s, and other tax-deferred investment vehicles. Those invested dollars have the chance for tax-free growth. If you are like a lot of people, you may enter a lower tax bracket in retirement, so your taxable income and federal tax rate could be lower when you withdraw the money out of that account.

Another potential benefit of directing more funds toward your 401(k): If the company you work for provides an employer match, then you may be able to collect more of what is often dubbed "free money".

Let's turn from tax-deferred retirement investing altogether and consider insurance and college planning. Many families are underinsured and the money for extra mortgage payments could optionally be directed toward long term care insurance or disability coverage. If you've only recently started to build a college fund, putting the assets into that fund may be preferable.

Let's also remember that money you keep outside the mortgage is money that is generally easier to access.

What if you owe more than your house is worth? Prepaying an underwater mortgage may seem like folly to you – or maybe you really love the house and are in it for the long run. Even so, you could reallocate money that could be used for the home loan toward an emergency fund, or insurance, or some account with the potential for tax-deferred growth – when all the factors are weighed, it might look like the better move.

Think it over. It really comes down to what you believe. If you are bearish, then you may lean toward paying off your mortgage before you retire. There is no doubt about it - when you pay off debt you owe, you effectively get an instant return on your money for every dollar. If you are tantalizingly close to paying off your house, then you may just want to go ahead and do it because you love being free and clear.

On the other hand, model scenarios may tell you another story. After the numbers are run, you may want to direct the money to other financial priorities and opportunities, especially if you tend to be bullish and think the market will perform along the lines of its long-term historical averages.

No one path is right for everyone. If you're unsure which direction may be most beneficial to you, speak with a qualified Financial Professional.

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Updating Your Estate Plan

When should you review it? What should you review?

An estate plan has three objectives. The first goal is to preserve your accumulated wealth. The second goal is to express who will receive your assets after your death. The third goal is to state who will make medical and financial decisions on your behalf if you cannot.

Over time, your feelings about these objectives may change. You may want to name a new executor or health care agent. You may rethink how you want your wealth distributed.

This is why it is so vital to review your estate plan. Over ten or twenty years, your health, wealth, and outlook on life may change profoundly. The key is to recognize the life events that may call for an update.

Have you just married or divorced? If so, your estate plan will absolutely need revision. For that matter, some, or all, of your will may now be legally invalid. (Some state laws strike down existing wills when a person is married or divorced.) If your children or grandchildren marry or divorce, that also calls for an estate plan review.[1]

Has there been a loss or serious illness within your family? If so, your named executor or health care agent may have to be changed. If one family member has now become physically or financially dependent on you, that too may be an occasion for a second look at the plan.

Has your net worth risen or declined substantially since the plan was first implemented? If you have become much wealthier in the past five or ten years (or much less wealthy), that circumstance may have altered your vision of how you want your assets distributed at your death. Maybe you want to give more (or less) to charity or your heirs. A large inheritance can also prompt you to rethink your wealth protection and wealth transfer strategy.

Have you changed your mind about what your wealth should accomplish? Today, you may view your wealth differently than you did when you were younger. New purposes may have emerged for it – new roles that it can play. Following through on those thoughts may lead you to reconsider aspects of your estate plan.

Have your executors or trustees changed their mind about their roles? If they are no longer interested in shouldering those responsibilities, no longer alive, or no longer of sound mind or reputable character, it is revision time.

"The key is to recognize the life events that may call for an update."

Have you retired, moved to another state, or bought or sold real estate? All of these events call for an estate plan check-up.

The first step in revising an estate plan is to update essential documents. Not just your will or your trust, but also your financial power of attorney and health care proxy. Review all the names: your executor; your trustee; your health care agent. Changes in your personal (and even your business) relationships may call for alterations to those choices.

The second step is to review your risk management. Does language in your will need revision? Does a trust created years ago need to be modified or replaced? Do new estate planning vehicles need to enter the picture in order to help you adequately transfer wealth, counter estate taxes, or endow charities?

What about your life insurance? Do beneficiary forms of life insurance policies need updating? Is corporate-owned life insurance coverage you once counted on now absent? Will policy payouts be sufficient enough to help your loved ones address financial issues after your death?

The third step is to make sure your assets are in sync with your plan. For example, if you have a revocable trust, have you transferred ownership of all the assets that are supposed to go into it? Have you acquired new assets that need to be "poured in?"

If you are married and it appears certain that your estate will be taxed, you may want to own some assets and have your spouse own others. Yes, the federal estate tax exemption is portable, so any unused estate tax and gift tax exemption is allowed to pass to a surviving spouse. At the state level, though, there are different rules. So if all assets are in your spouse's name and your home state levies an estate tax, that scenario may mean higher estate taxes for your heirs than if those assets were alternately owned by either you or your spouse.[2]

Even if nothing major happens in your life, review your plan every five years or so. While your life may be uneventful over five years, tax law, the financial markets, and business climates may change significantly. Those kinds of shifts can impact your estate planning strategy.

Moving Into a Nursing Home Facility

What you and your loved ones need to know.

At some point, someone you love may make the transition from living at home to residing at an assisted-living facility or nursing home. When should that transition occur, and what factors must be considered along the way? And what don't these facilities tell you?

When is it time? If an elder is a) safe and content at home, b) in reasonably stable health, c) can draw on personal or family resources for in-home care, d) has a sufficient "rotation" of family or professional caregivers available so as not to exhaust loved ones, then there may be no compelling reason for that elder to enter a nursing home or assisted-living facility.

If, on the other hand, an elder's health notably worsens and caregiving strains your own health, relationships and/or resources, then the time may have arrived.

If it is time, is a nursing home really necessary? It may not be. Keep in mind that long-term care insurance will often pay for home health aides, adult day care, and forms of at-home nursing. This is called respite care, and perhaps 10-15 hours of these services per week will do. LTC insurance covers respite care. Even without LTC coverage, this level of care may fit into your budget.[1]

Will an assisted-living facility suffice? If an elder is ambulatory and reasonably healthy, it might. Assisted-living (allowing an elder to have their own space plus quality care) costs much less than nursing home care, usually tens of thousands of dollars less annually. A Place for Mom's Senior Living Price Index estimates the savings at $1,600-$2,300 a month. Most people pay for it using a combination of long-term care insurance and private funds.[2]

Is an assisted-living facility several steps above a nursing home? Its marketing will tell you so; truth be told, many assisted-living facilities *are* comparatively brighter, more comfortable and cheaper than nursing homes.

Keep in mind, however: many assisted-living facilities do not offer their residents 24/7 medical attention, and costs may climb if your loved one needs or wants more than the basics in terms of care or comfort. According to Genworth's 2016 Cost of Care Survey, the median yearly cost of a semi-private room in a nursing home now exceeds $82,000.[3,4]

Are insurers raising premiums for LTC policies? Yes, significantly. As a *Money* article notes, yearly premiums for the more expensive policies can now exceed $2,300 for a 55-year-old man and $4,406 for a 55-year-old woman. Annual premium increases of 10% or more (sometimes much more) have occurred with disturbing frequency in this decade.[5]

"Genworth's 2016 survey notes that the national median price for the typical shared room at a nursing home is $225 per day."

Is long-term care insurance worth the cost, with the possibility that benefits may go unused? In some cases, it may not be. As CNBC notes, households with $2 million or more in assets may not need LTC coverage at all, while those with savings of less than $100,000 may get much of the help they need from Medicaid when the time comes.[6]

Alternatives have surfaced to traditional LTC insurance coverage. Recently, "hybrid" life insurance policies (and other life insurance products) have emerged that offer an add-on LTC benefit to consumers, for a price. Short-term care policies, while long available through certain insurance companies, are getting a second look. Some have benefit periods as long as a year, and they may be the only option for seniors with conditions that would disqualify them for an LTC policy.[4,5,6]

What isn't said about eldercare? Nursing homes and assisted-living facilities are not predisposed to tell you about the downsides to their communities. So what isn't usually expressed on the tour or in the brochure?

First, let's talk about nursing homes. Genworth's 2016 survey notes that the national median price for the typical shared room at a nursing home is $225 per day. Imagine handling that without help from LTC insurance or Medicaid. (Medicare will not pay for long-term nursing home care or home health care.)[3,5]

According to the Centers for Disease Control and Prevention, an elder is twice as likely to suffer a fall in a nursing home as he or she is in the community. In fact, the CDC says that the average nursing home patient suffers 2.6 falls per year and that physical restraints do nothing to reduce the risk. If you have ever visited a nursing home and noticed a preponderance of residents in wheelchairs, it may be a response to liability as much as disability. A corollary to this: if residents are discouraged from being ambulatory, their leg strength may quickly diminish.[7]

If your parent or grandparent has known and trusted a family doctor for decades, there is a risk that the relationship may wane or end after a move to an eldercare facility. Nursing home residents are placed under the care of one or more staff physicians who more or less become their primary doctors.

The rules and regulations governing care at assisted-living facilities can vary greatly among states and counties, and, while nursing home ratings are relatively easy to find online, reviews of assisted-living facilities are not.

When considering an assisted-living facility, it is worth remembering that more than 80% of residential care facilities are for-profit businesses; roughly 40% of these facilities are outposts of national chains. In some cases, that can be a plus; in other cases, a minus.[8]

You may know someone whose parent or grandparent was asked to leave an assisted-living community. This circumstance isn't all that rare, especially if an elder copes poorly with the advance of dementia. If a resident is particularly difficult, the possibility of eviction may arise.

When the time comes, stay involved. Our lives are often busier than we want them to be, but our elders count on us to be visible and engaged in their lives after they enter assisted-living facilities or nursing homes. Your vigilance and support can make a difference in the experience for the one you love.

What Expenses Could Change When You Retire?

Some costs could rise, fall or even disappear.

Your retirement may seem near at hand or far away, but one thing is certain: your future will differ from your present.

Financially, that fact is worth remembering. Some of the costs you have paid regularly all these years may suddenly decrease or fade away. Others may increase.

Will your insurance costs rise with age? Maybe not. You may find that your overall insurance expenses decline. Yes, health insurance becomes more expensive the older you get – but those premiums are merely part of the bigger insurance coverage picture. If you stop working in retirement, you have no need for disability insurance. You might have little need for life insurance, for that matter. You may have paid off your home and other major debts, and rather than drawing income from work, you will be drawing it from investments and Social Security.

You can expect your medical expenses to increase. By how much, exactly? That will vary per household, but perhaps you have read some of the latest estimates. This summer, Fidelity Investments said that a 65-year-old couple retiring today will need around $260,000 to cover future health care costs. This estimate assumes they live 20-22 years after they retire. Long-term care coverage was not included in that projection; Fidelity projects that a policy providing three years of care at $8,000 a month would cost the same couple an extra $130,000.[1]

How about your income taxes? If you live on 70-80% of your end salary in retirement – which is not unusual – then you may find yourself in a lower income tax bracket. Yes, your Social Security income may be taxed – but, even in the worst-case scenario, no more than 85% of it will be.[2]

If you have invested using a Roth IRA, you will be looking at some tax-free retirement income – provided, of course, you have owned the IRA for at least five years and are older than 59½ when you start making withdrawals. While a Roth account held in a workplace retirement plan requires withdrawals beginning at age 70½, the withdrawals will still be tax-free if you follow IRS rules.[3]

Will your housing costs fall? Over the long term, they may. Some retirees own their homes free and clear and others nearly do. Homeowner association fees and property taxes must still be paid, so, while that mortgage balance may be gone or nearly gone, other recurring costs will remain.

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Homes inevitably need repairs, so, in some random year, you may find your housing costs jumping. Downsizing and moving into a smaller home can also mean a short-term rise in your housing expenses. If you do downsize and move, you will hopefully relocate to an area where housing costs are lower.

Will you face education costs? You may have retired your own college debt, but if you have children forty or fifty years younger than you are, you could risk retiring with some of their student loan debt on your hands. That expense could linger into your retirement – a valid reason to reject assuming it in the first place.

One "cost" may disappear, leaving you with a little more money each month. Once retired, your constant per-paycheck need to save for retirement vanishes. So if you are assigning 10% or 20% of your paychecks to your retirement accounts, you may be pleasantly surprised to find that money back in your wallet (so to speak) after you transition into your "second act."

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