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Don't Count on Home Equity to Keep You in Retirement

While it is true that your hard-earned home equity may be a great help to you in retirement, it is definitely not wise to plan on that equity providing all the funds you need after quitting the workforce. Real estate is a great investment over the long run, but the market can turn sour quickly. If you need to sell or cash out for your retirement at such a period, you may lose a lot of valuable equity.

Most home values saw healthy price appreciation during the recent housing boom. If you live in Florida, California, or Arizona, the profits have been very robust indeed. Yet the housing slump of the past year has shown how quickly things can turn around in the real estate arena. If you didn’t sell your home during the housing boom, you may have to wait a while for the market to start heading back up so that you can make the most of your equity.

If you live in an area that is centered around one type of industry, the real estate market could plummet if that industry closes shop or if there is a local recession. If your retirement coincides with one of these down periods, your home may not provide enough cash for your expenses for the next twenty to thirty years.

Financial analysts advise people to put at least some money away into investments. This way you can switch your funds to a different type of account if one becomes too risky. The closer you come to retirement, the more you can put into lower-risk investments to insure a healthy retirement pension.

Still, your home is a valuable asset and research has shown that returns on real estate investments are higher than investing in government bonds. (Although they are lower than stocks and mutual fund returns.)

Even if the home market goes south when you are ready to retire, you can still take advantage of home equity loans or reverse mortgages to help pay for your later years. Both of these loans will allow you to stay in your current home during retirement. A home equity loan allows you to pull out a sum of money up to a certain percentage of your home’s value. You can either get it in a lump sum or draw on the loan periodically. You will have to start making repayments after a certain point though. At that point, you may find it easiest to sell your home to pay off the loan.

A reverse mortgage would allow you to stay in your home and essentially sell your home back to the bank over the course of your retirement. This means that your mortgage lender would actually be paying you to live in your house. You can also get this money in a lump sum or in installments. When you give up the home as your primary residence though, the loan becomes due. This means either that you or your heirs must fork out the money to keep the home, or the lender gets the home and sells it to cover the remaining costs of the loan.
There are great ways to take advantage of your home equity in the retirement years, but it would be foolish to depend on your equity alone to sustain you. No matter where you are in your career, start now to put away money in savings or investments. The housing market is too volatile to leave your fate in the hands of your equity!