



Amy Hoak's Home Economics

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Refinancing near retirement can be smart

But give it some serious thought before pulling the trigger



By [Amy Hoak](#), MarketWatch

CHICAGO (MarketWatch)—Tempting low interest rates continue to make headlines, making refinancing your mortgage look attractive. But when retirement isn't far off, the decision to refinance can get more complicated.

After all, most pre-retirees are trying to reduce debt before their last day of work, not extend the amount of time they'll be on the hook for payments.

Still, for some homeowners with retirement on their minds, it makes sense to trade their higher mortgage rate for one near record lows, said Keith Gumbinger, vice president of HSH.com, a publisher of mortgage and consumer loan information. The money saved each month on your mortgage can be poured into other investments that could pay off in retirement, "whether that's a 401(k) or IRA or cleaning up other debts," he said.



Annuities in a low-interest-rate world

With interest rates at historical lows, many retirement savers are leery of annuities. But the older you get, the less interest rates affect your annuity payout.

Retiring on the edge of the 'fiscal cliff'

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If you haven't refinanced in the past few years, your monthly savings can be substantial. The 30-year fixed-rate mortgage averaged 3.34% for the week ending Dec. 6, while the 15-year fixed-rate mortgage averaged 2.67%, according to Freddie Mac's weekly survey of conforming rates. For those with a current mortgage rate near 5%, refinancing could mean significant improvement to their monthly cash flow.

Consider this: A homeowner who's 52 today and who wants to retire 70 bought a home in 2002 with a \$250,000 mortgage. He refinanced 5% in 2003. If he refinanced again into a 3.49%, 30-year fixed-rate mortgage, his payment would go down \$415 a month, according to Gumbinger's math.

The downside is the loan wouldn't be retired until he is 82, and it would cost \$3,432 more in interest over its lifetime than if he didn't refinance

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To make that kind of trade-off work for you, it's critical to ensure the increased cash flow is used productively.

"You have to be determined to save the money and invest it in something that would yield a higher rate of return than the interest rate you're paying," said Rich Arzaga, founder of Cornerstone Wealth Management in San Ramon, Calif. Conservative vehicles including corporate or municipal bonds—held long term—are a good option, he said. Money market accounts and certificates of deposit probably won't cut it right now, with the paltry returns they're paying out.

For others, the monthly cash flow may not be worth the hassle or the cost of a refinance, especially if the homeowner is close to the end of the mortgage term. At that point, the bulk of the payment is going to principal, said Tyler Vernor, president of Biltmore Capital Advisors in Princeton, N.J.

"Banks do that because they know that most people don't have a mortgage for more than six years, so basically they're paid mostly interest up front," he said. But by the time the homeowner has five to 10 years left on a mortgage, he or she is paying much less interest, he said.

It's helpful to talk out your own personal scenario with a financial planner before deciding to pull the trigger. But here are a few factors to consider prior to making a decision.

Your personal time frames

When doing your calculations, it's important to consider how long you'll stay in the home and when you plan on retiring. Knowing your goals is essential in making this financial decision.

For instance, if your goal is simply to increase cash flow and owning your home free and clear isn't a priority, perhaps refinancing makes sense. Some people plan on downsizing when they retire or trading in their home for something more suitable, Gumbinger said. If you're one of those people, the idea of refinancing might not be as frightening—you'll be paying off that mortgage anyway when you sell your home.

But the time you're planning on staying in the home shouldn't be too short, since you'll want to be there long enough to recoup the closing costs on the refinancing.

That said, if you're planning on remaining in the home for good, with a goal of paying it off, you'll have to seriously think about how you'll pay the mortgage when you're no longer bringing home a paycheck. And you may have no interest in lengthening the mortgage term into retirement.

How old you are will also be a big factor. "If you're closer to 65, that's a different scenario than if you're 55 or 52," Gumbinger said.

Time left on the existing mortgage

Regardless of your personal time frame, if you have 10 years or more left on the existing mortgage, there's a chance it may make sense to refinance. With more than a decade to go, you're not yet applying as much payment to principal, said Bill Losey, president of Bill Losey Retirement Solutions, based in Wilton, N.Y.

For those with less than 10 years on the loan, it's a different situation, since more of your mortgage payment goes toward principal.

Furthermore, while lenders might offer a refinance product with a 10-year term, it will be difficult finding a mortgage with a shorter term than that, Gumbinger said. And if you're near retirement, it's unlikely you want to add another 20 years to your mortgage through a 30-year fixed product.

Risk tolerance

In the end, only you can decide how much risk you're comfortable with.

"I always say, you want to enter retirement completely debt free, with the only exception potentially being your mortgage," Losey said. "No one should have a mortgage past 70 tops, even at these historic low rates."

Others see some upside to extending your mortgage. With a mortgage paid off in retirement, you may have more control of your expenses but it could be more difficult to tap home equity if you need it. For instance, there's no guarantee reverse mortgage products will be available at some future date, Gumbinger said.

And you may not want to go that route anyway. Investments such as bonds and stocks that refund dividends are more liquid than your home equity, which could be helpful when those on a fixed income need cash—whether the reason is unexpected or not.

Either way, take a pass on mortgage life insurance, Gumbinger said. That's a policy that offers more protection to the lender, who will receive funds in the event of your untimely demise, he said. You're better off considering a standard term life policy instead; that way, the beneficiary has the freedom to do what he or she wishes with the proceeds—including, if he or she wishes, paying down the mortgage.

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