



Bank on Your Home in Retirement?

Don't assume you can ride to easy street on your rising home values.

By Mary Dalrymple



The Motley Fool.
Fool.com.

Updated: 11:48 a.m. ET Jan 11, 2007

You've no doubt read about a million dismal statistics about retirement savings, so one more won't hurt.

Almost 44% of households are at risk of not being able to maintain their current standard of living in retirement.

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But don't lose hope! You're not automatically destined to become a retiree who will be forced to live on ramen noodles and wear three sweaters around the house in the winter. Here's the scoop on the terrible trends and how you can escape them.

To get to their 44% figure, researchers at the Center for Retirement Research at Boston College assumed the breadwinners in these households worked until age 65, then annuitized all their financial assets, including receipts from reverse mortgages.

Real estate

When the center last ran these numbers, they calculated that in 2004, about 43% of households were at risk of a declining standard of living in retirement. Then, for two years, the housing market exploded. Yet, when the researchers crunched their numbers again for 2006, they found that a few more people fell into this "at risk" category.

What happened? One would assume the higher home values would improve a retiree's situation by enabling a larger reverse mortgage. Unfortunately, the positive impact of rising home values got almost completely wiped out by higher mortgage debt.

The lesson? If you plan to rely on your home equity in retirement, don't spend that equity now. Do your best to ignore the siren song of home equity loans, particularly if you're thinking about using the funds for vacations, cars, or other consumer pleasures. Also, consider paying off your mortgage before retirement.

Social Security

If you're getting close to retirement, you probably can recite the exact age, down to the month, at which you become eligible to receive your full retirement benefits from Social Security. If not, it's time to look it up here.

You might be surprised to learn that many people can't start drawing their full benefit at age 65, the traditional and assumed retirement age in the study. In fact, if you were born any time after 1938, Social Security wants you to work longer.

The lesson? The center found that the number of retirees at risk of seeing their standard of living decline fell to 33% if people retired at age 67 instead of 65. If you want the biggest monthly check available from Social Security, don't start taking your benefits until you reach your full retirement age. That's not the best decision for everyone in every situation, of course, but everyone should know how long Social Security believes they should toil at their jobs.

Pensions

It's no secret that companies have been dropping their pensions in favor of retirement savings plans that put the responsibility on employees. The problem with those 401(k) accounts isn't the accounts -- it's us. "In theory, 401(k) plans could provide adequate retirement income, but individuals make mistakes at every step along the way and balances are low," the study's authors wrote.

The list of problems is long -- more than 1 in 5 employees don't participate, half fail to diversify their investments, many hold too much company stock, and too many cash out their savings when they change jobs.

The lesson? Take control of your 401(k). Start contributing and keep it up. Don't cash it in when you leave your job. If you're stumped about how to invest your money, start with an easy and automatically diversified mutual fund, the equity index fund. Most plans allow participants to invest in a low-cost index fund that tracks the total stock market or the S&P 500, which has cranked out an annualized return of slightly more than 10% over the last 80 years.

That's not too shabby. With an S&P 500 fund, you'll own shares in the country's biggest companies, everything from iPod inventor **Apple** to banking giant **Citigroup** to discount powerhouse **Wal-Mart**. If people saved 3% more in their accounts, the percentage of people at risk of seeing their living standard decline would eventually fall to 33%, the study found.

So, don't expect that you'll have to rely on those high-stakes bingo games to make your retirement comfortable. Head to the Retirement Center to figure out how much you'll need, and take the Rule Your Retirement newsletter for a free 30-day spin. There's no obligation to buy.

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