Financial Wellness

Carrying a mortgage into retirement – good or bad idea?

A higher percentage of homeowners are retiring with a mortgage than was the case 30 years ago. A recent Harvard University study[1] found:

Year	Homeowners age 65 – 79	Homeowners 80+
2016	46%	26%
1990	24%	3%

The causes

The reasons for this change are several, according to the researchers. First, mortgage rates have fallen greatly over the last two decades. Many retirees who currently carry a mortgage were able to reduce their payments by refinancing older, higher-interest mortgages into new loans with lower interest rates. Essentially, their mortgage burden is less onerous.

Additionally, the long-term run-up in home prices relative to earnings has meant that many homeowners find it hard to pay off their mortgages prior to retiring. Currently, home prices are more than four times the typical household's earnings, compared to the late 1980s and early 1990s when prices were three times earnings.

Another factor is that, culturally, debt is not stigmatized as much as it once was. Total debt as a percentage of disposable income has been climbing for decades, encouraged, in part, by federal income tax law that allows an itemized deduction for home mortgage interest. However, with more taxpayers claiming the standard deduction instead of itemizing as the result of recent increases in the standard deductions for each filing status, this tax incentive may become less important.[1]

Mortgage debt's impact on retirement

The financial wellness of retirees can depend greatly on the percentage of their income they need to spend on housing. Typically, a mortgage payment (or rent) is one of the largest budget items for retirees. So, carrying a mortgage into retirement can be a significant burden. But there can also be good reasons for keeping a mortgage. Here are some factors to weigh if you are trying to decide on your best course of action.

Keep your mortgage into retirement. Some situations favor carrying your mortgage into retirement. For example, it may make sense if you carry a lot of consumer debt. Why? The general rule for paying down debt is to tackle the debt with the highest interest rate first. Since mortgage rates are usually lower than rates on consumer debt, you may be better off putting your available cash towards paying down credit card balances than trying to pay off your mortgage. Likewise with any other consumer loans you may have.

It can also make sense to carry a mortgage into retirement when:

- You can potentially earn more by investing your money than by using it to pay off your mortgage interest payments.
- Your cash reserves are limited and you do not have a way of replenishing them.
- You want to use your money to diversify your investments rather than tying it all up in real estate.

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Prepay your mortgage. It may be financially wiser to prepay your mortgage before retirement if your retirement income will be limited and won't accommodate a mortgage payment. It can make sense also if there is no prepayment penalty and you estimate that you can save a large amount of interest in the long run by paying off your mortgage early. And finally, you should consider prepaying your mortgage before retiring if you just don't like debt and don't want to have to worry about it.

> Deciding whether or not to carry your mortgage into retirement can be a difficult decision. You may benefit from discussing your options and getting a clearer picture of your overall finances with a financial professional.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

[1]Excessive Mortgages, Financial Well-Being, and Financial Skills among Older Homeowners, Joint Center for Housing Studies, Harvard University, 2019.

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