RetireAHEAD™

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Downsizing doubt

Rising mortgage rates make seniors rethink move

By Ilyce Glink

Most people assume they'll downsize to a smaller home in retirement, or when the last child flies the coop for college or beyond.

After all, empty nesters don't need all the space they bought when they were raising families.

And they imagine all the money they'll save by downsizing to a smaller place.

But what happens if it will cost the same — or even more — to buy a smaller home? Many retirees now realize that rising interest rates could make it less expensive to stay in their current home than to move to a smaller property or one with fewer amenities. Furthermore, some are deciding that a smaller property just doesn't suit their needs.

How did this happen? After the housing bubble burst, interest rates fell to historic lows and stayed there for years.

Those who bought or refinanced homes then were able to lock in lower interest rates than those currently available after the Federal Reserve raised its rates 0.25 percent in December and again in March. (The Fed is expected to continue raising its interest rate throughout 2017.)

"One of the trends we've seen over the last three or four years while rates were so low is a lot of people refinanced to a 15-year mortgage from a 30-year mortgage," says Lynn Fisher, vice president of research and economics with the Mortgage

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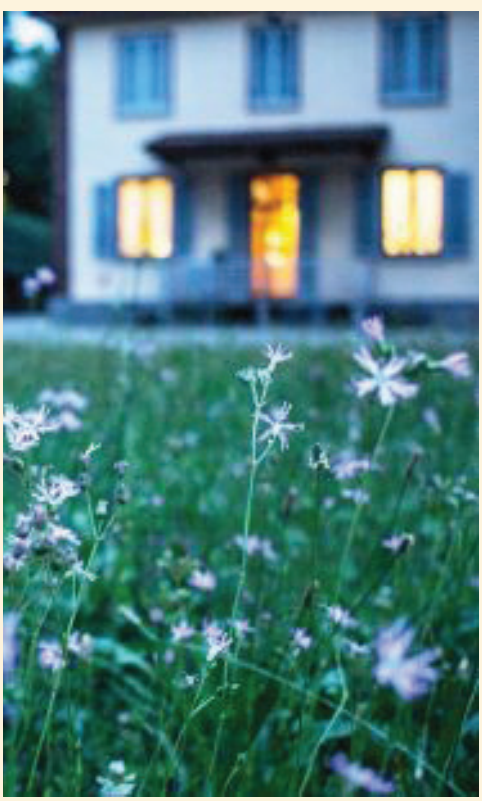
past retirement age, not paying off that mortgage can be an obstacle to long-term financial security.

"This is a common misconception that people have. They say that they'll keep paying their mortgage so that they can get a tax deduction. But in most cases, they'll pay more money in interest than they would pay to the IRS in taxes," Gunn explains. "My happiest retirees are those who have paid off their mortgages."

Consider hiring a professional to help with the details. You might think you're a financial wizard, but don't overlook the value of hiring a professional.

"If you do it yourself, you really need to invest your time in learning about tax laws and spend time researching how to invest your money," Gunn says. "If you don't have the expertise or the desire to do that, you should hire a professional."



Five things to think about at 50

This is a great time to map out your retirement lifestyle

By Jeff Steele

You may never have taken Retirement Planning 101. But the half-century mark can be an ideal time to mull five financial considerations everyone should think about at 50.

Develop goals, visions

It's hard to formulate a retirement plan without knowing what you're shooting for. This life stage, more than 15 years before full retirement age, is a great time for some soul searching about the retirement lifestyle you envision, says John Roegner, a fee-only financial adviser for Savant Capital Management in Naperville, Ill.

You might even sample that lifestyle. Considering retiring to Arizona? Try taking an extended vacation to the Grand Canyon State in July and December, "to find out what it is really like living in that destination throughout the year," Roegner says.

Catch up on saving

If, like many Americans, your savings lag recommended levels, age 50 is the threshold at which you can begin catching up.

Before 50, you can contribute up to $18,000 yearly to your 401(k). At 50, that increases to $24,000, says Hagen Pruemm, founder of SIS Financial Group, based in Hoffman Estates, Ill. "And that doesn't even include any employer match you may get," he adds.

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You can also increase IRA or Roth IRA contributions, from $5,500 a year before age 50 to $6,500 annually once you've hit the half-century mark. And if you have a non-working spouse 50 or older, you (the working spouse) can contribute $6,500 for him or her, for a total of $13,000 per couple.

Track current, project future spending

Many people at 50 have little sense about their current monthly spending. If they have no idea what they're spending today, Roegner asks, how will they possibly be capable of determining their retirement spending?

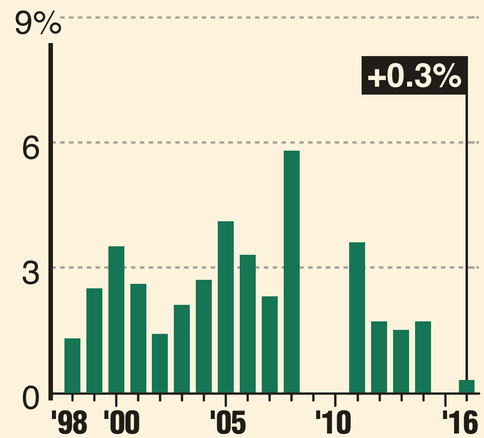
"It's never too late to create a budget, track your expenses and create good habits today," he says. "Developing good habits helps you create realistic retirement projections for the future. From a cash-flow standpoint, understand your current spending, [and] account for what your spending might look like five or even 10 years from now. At 50, you probably still have a mortgage, but at 60 or 65 you may have paid off your home. What will you do with that extra cash flow [resulting] from not having the mortgage payment?"

Inventory retirement resources

Age 50 is also an optimal time to get a handle on potential retirement income sources, Roegner says. Understand what your Social Security benefit will be at full retirement age, and how it will be impacted if you start payments earlier or later than full retirement age. Understand your employer's retirement plan benefits, whether a 401(k) or — if you're fortunate enough — a pension. Also consider other sources of income — the sale of a home or business, or an inheritance, for example.

Cost of living adjustments

Since 1975, Social Security general benefit increases have been cost-of-living adjustments or COLAs. The federal government announced a 0.3 percent increase in monthly benefits on October 18, 2016.



**0% increase on 2009, 2010 and 2015*

Source: Social Security Administration
Graphic: Tribune News Service

Change 'dirty money' to clean

Most people have too much of what Tony Perrone calls "dirty money." That refers to tax-deferred money taxable during your retirement, says Perrone, the author of "I Didn't Know I Could Do That: 9 Financial Strategies That Can Save or Make You Money."

"Take some of your dirty money you have now in a traditional IRA, 403(b) (or) old 401(k), move it into a Roth IRA and pay the taxes now," says Perrone, president and founder of the Estate and Business Planning Group in Altamonte Springs, Fla. "Get it over with. … It will come out tax-free for retirement and not be included on your Social Security taxation formula. This can be a huge benefit for you … especially based on what the tax brackets might be in the future."