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In the News...



Ventura County Star

Home equity may prove valuable asset for boomers' retirement

By Eileen Alt Powell, AP Business Writer
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NEW YORK (AP) -- It's no secret that baby boomers have not been very diligent about saving for retirement, but that doesn't mean they don't have assets. Many live in homes that have appreciated greatly in value in recent years as real estate prices have soared.

Some financial experts believe that's going to be the boomers' salvation because they will be able to tap that home equity to help fund their retirements.

The main sources of retiree income traditionally have been Social Security benefits, pensions, savings and working during retirement.

"But fewer people are getting pensions, and many haven't saved enough," said Gillette Edmunds, co-author with financial planner Jim Keene of the newly published "Retire on the House." **"If that's the case, you have to look at where the money is and use that to fund retirement -- and for many that will mean figuring out how to use your home equity."**

Keene, a regional manager in private client services for San Francisco-based Wells Fargo & Co., added that baby boomers will have a number of options to "monetize" their homes, from buying a less-expensive house or condominium for cash and investing the proceeds, to reverse mortgage loans or interfamily deals.

Because these can be complicated transactions, it's best to get professional help in deciding what to do and in executing the deals, Keene said.

To be sure, there are mortgage experts who are skeptical of putting too much faith in tapping home equity to fund retirement.

"If somebody has no savings, the chances are they don't own a million dollar house free and clear either," said Michael Moskowitz, the president of the New York mortgage company Equity Now. "I think it's a bit of wishful thinking."

He added: "Without retirement planning, without a 401(k) or IRA savings account, people aren't going to be able to enjoy the same standard of living they had before retirement."

Edmunds and Keene do, in fact, urge people to save for retirement. But their point is that **many may not have thought about using the equity they've built up in their homes to supplement other retirement income.**

According to their calculations, the assets in pension plans totaled \$1.7 trillion last year, while those in 401(k) and other company-sponsored plans totaled \$2.8 trillion. There was an additional \$3.7 trillion in Individual Retirement Accounts. **At the same time, the home equity held by households was nearly \$11 trillion.**

The easiest way to free up that equity is, of course, to sell the house. At that point, the retirees can "downsize" to a smaller home or condominium or they can start renting. They then can invest the excess proceeds from the sale and tap the earnings to supplement their income.

"You want to invest this money carefully," Edmunds said. "You certainly don't want to take a big windfall from your house and blow it."

Another alternative, he said, is to rent out rooms. In some cases, he said, it might even make sense to split the entire house into rental units.

"This is a very personal decision," he added. "A lot of people aren't comfortable about having tenants or don't want to cut house into (rental) units."

Keene points out that there are a variety of ways retirees can tap the equity in their homes without selling them outright.

The most common alternative is the "reverse" mortgage, which can provide a lump sum or fixed monthly payments to borrowers who are at least 62 years old, but ideally more than 70 years old. The downside is that these loans currently have high upfront costs and limited payouts.

But there are also a variety of modern mortgage products that retirees can consider, especially if they have strong credit ratings, he said. These include:

- A fixed term, interest-only home equity line of credit.
- A negative amortization loan, such as an option payment adjustable rate mortgage.
- An interfamily loan, using a binding agreement structured like a mortgage.
- Private trusts.

Keene said that looking at alternatives is especially important because "people are living so much longer" and need all the resources at their disposal to finance retirement. And, he said, "it's a dynamic process" that may require families to use several financing tools over time, such as "downsizing" when they first retire and a reverse mortgage later.

Ron Chicaferro, executive vice president with Thornburg Mortgage Inc. in Santa Fe, N.M., agrees that **baby boomers who haven't saved enough are likely going to have to work longer and look at their house as a source of retirement income.**

He said that to make downsizing work, retirees need to think about "relocating to areas where you can get a house for less money" so they have more to invest to fund retirement. And, he advises, "get a financial planner or have a solid plan for investing ... because, for a lot of people, the proceeds from the sale of a home could be a sizable amount of money."

Chicaferro also cautioned that baby boomers shouldn't count on their homes appreciating as fast in the future as they have in the past decade.

"There's no guarantee that equity in the home is going to double or triple in value, so it's not a prudent thing to sit there and think it will happen," he said.



OFG: This article clearly exploits the growing crisis in America relating to Retirement and the integral part Home Equity can play as a solution. "What is the meaning of retirement if the only way you can live is to work?" This is what the majority of retirees are facing. With Social Security and Pensions insufficient to maintain their standard of living, retirees are left with two options: 1) Go back to work, or 2) Live on the equity in their home that they spent the last 30 years paying-off.

Homes were meant to store families, not cash. When leveraged into a safe, liquid side account that offers Tax-Advantaged Contributions, Tax-Free Accumulation, Tax-Free Withdrawal and Tax-Free Transfer, you can catch up on 20-30 years of retirement savings through the one time separation of home equity that can carry you through retirement while maximizing your Tax-Deductions.