

## Should Retirees Pay Off Their Mortgages? - Transcript

**Tom Mullooly:** Should you pay off your mortgage? This is what we're going to talk about in Episode 103.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly and this is Episode number 103. These topics that we cover all the time, we get them in discussions with our clients, from our viewers, listeners to our podcast. If you've got a financial related question, whether it's investment or financial planning, get in touch with us. You may see it on an upcoming video.

Today we're going to talk about an article that was in the Wall Street Journal this week about should a retiree think about paying off their mortgage or should they continue to carry it while they're in retirement? Good question. Sometimes the answer is no. One of the quotes very early on in the article was, "Every single case is different," and that's true, so you really need to sit down with your advisor or your financial planner who knows your situation and will be able to give you some good guidance on what you need to do.

Here's a little tidbit that kind of surprised me. More than 40% of people who are age 65 and over are still carrying a mortgage. That's almost half of the people out there 65 and over still holding and paying a mortgage. Now, 20 years ago, in 1995, that number was more like 22%. We're seeing more and more baby boomers, as they're retiring, starting to keep the mortgage. Everyone's got a different reason why.

If you've got all the money you need for retirement, you've got a big pension or you've got a big 401K balance, and you're set for retirement, then sure, you may want to think about paying off that mortgage. If your money is sitting in CDs, earning 1% and you're paying a 4% mortgage, that may not be the best way to go. Again, another reason why you want to go through the numbers with a professional and find out what's right for you.

Another tidbit that I took out of this story, which I found amazing, is that it came in the part of the article where it talked about making a plan. Get this, 11%, 11% of people who are working at age 65 have a written financial plan or a strategy. What? What are you doing? You need to figure out what your exit plan is going to be so you've got money and you can retire.

On the flip side, taking money out of a 401k or out of an IRA just to get rid of a mortgage, not really a good idea. Think twice before you do something like that. As usual, getting the story just from the paper isn't going to do it. The comments are usually the best place where you'll hear some really good tips.

The very first comment in the article, someone wrote, "I was able to retire early because I had no mortgage." He's right. Someone else quickly also added, "All debt in retirement is bad." Think about it. When you're retiring you're not bringing in an income. You're living off of your assets. To continue to pay a debt that's got interest ticking with it may not be in your best interest.

A lot of people said, "Hey, this article's written for people who are getting hung up on the arbitrage of returns versus the cost of a mortgage," you know the returns that you can make in

the market versus the cost of your loan. Someone also suggested, "Hey, if you pay off your house, that gives you a little bit of extra coverage for some high medical bills," meaning you can, not that we advocate this, but you could declare bankruptcy if you've got some high medical bills. Again, something to talk about with a financial planner.

Something else to consider that came up a few times in the comments. If you're getting near the end of a mortgage, a 20 year or a 30 year mortgage, understand what amortization means. When you amortize a loan, you have the same payment all the way throughout the life of the loan, but at the front of the loan you're paying almost all interest.

At the end of the loan, you're paying almost all principle. You have to really consider if you're getting the big write off that we used to get, especially now with the new tax law and the state and local income taxes, they're all capped at 10,000. It may not work out for you to carry a mortgage. You've got to get down the numbers on paper and see if it really makes sense, which is why we tell you to talk to a planner about this.

Everything else, when it comes to investing, it all comes down to cash flow. Want to know why Warren Buffett buys some of these really weird companies? They kick off so much amazing cash flow. It's something that you really need to consider when you're looking at your own personal balance sheet. Cash flow is so important, not only if you're in your 20s and 30s and just getting started, but also in retirement.

That's it for Episode 103. Thanks for watching, see you next time.