

Debt-free to retire in comfort

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It's "absolutely essential" to pay your mortgage off before retiring, says financial planner John Hewison.

Rather than paying off the mortgage and other debts, those nearing retirement in Sydney and Melbourne are often still lumbered with them. There's no hard numbers but some financial planners say they are seeing more clients not far from retirement who still have a substantial mortgage over the family home.

The reasons for the indebtedness are well known: high house prices; entering the market later in life and second marriages. Then there are the push factors by the lenders who want us to be in hock up to our eyeballs. Lenders used to take into consideration how long the borrower had until they reached 65 in determining how much to lend. Now, when lending to older borrowers, they take account of the fact that borrowers can access their super tax-free from 60 to pay back the loan if they become unemployed.

Getting the mortgage under control is one of the key strategies that any good financial planner is likely to give to those who do not have many years left in the workforce. Most of those in retirement will have to rely on at least a part age pension. And the family home is exempt from the assets test for Centrelink benefits.

For John Hewison, financial planner and founder of Hewison Private Wealth, it is "absolutely essential" to pay off the mortgage before retirement. This is one of the key determinants of living standards in retirement, he says. "Responsible budgeting plays a big part in that."

Then there are the emotional aspects of home ownership, says Wayne Leggett, a financial planner with Paramount Wealth Management. Leggett says the security that home ownership gives is just as important in a financial plan as the numbers.

A financial planner and director of WLM Financial Services, Laura Menschik, says it is important to work out how much is likely to be needed for a comfortable retirement well before retirement approaches. Some people may come to the conclusion they will not be in a position to pay off their homes before they retire. They may decide to move into a smaller house and extinguish the mortgage altogether. There may well be some money left over. The downsizing may have to occur before they retire, if they want to put the proceeds into their super, Menschik says. Those 75 and over are usually not eligible to make contributions to super and those between 65 and 70 must satisfy the work test rules and be working at least 10 hours a week, on average, if they want to make contributions to super.

For many, the most tax-effective way of becoming mortgage-free is to make pre-tax contributions into super through salary sacrifice and use part of the super savings to pay off the mortgage. But the amount of money used to extinguish the mortgage would have to be added to the required retirement saving needed to fund a comfortable retirement.

Read more: <http://www.smh.com.au/money/planning/debtfree-to-retire-in-comfort-20111004-115q0.html#ixzz1ZxZWWZ9r>