Good Hands℠ **Retirement**

Manage

What Are Your Plans for Your Home?

Your home is probably one of your most valuable assets. Whether you intend to continue living in your home after you retire or sell it and move elsewhere, there are a couple of important issues related to your property that you'll want to address.

Carry a Mortgage or Retire It?

Once you stop working, will you still have to make a monthly mortgage payment? Carrying a mortgage debt during retirement may be a heavier financial burden than you'll want to bear. Anyone considering refinancing or taking on a new mortgage shortly before retirement should certainly think about the following issues.

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A mortgage payment will significantly affect your monthly living expenses. Without having to make a mortgage payment, you may be able to comfortably live on much less during retirement.

You may lose financial flexibility. Having a large fixed monthly cost is restrictive at any age, but could be a bigger problem when you're not receiving a regular paycheck. You may be forced to sell investments at inopportune times to make mortgage payments.

The mortgage interest income-tax deduction will be less over time. With each mortgage payment you make, a larger percentage is applied to principal and a smaller percentage to interest.

You may not be able to generate much cash from a reverse mortgage if you already have a conventional mortgage. If you're cash-strapped during retirement, a reverse mortgage may not be much help in your situation, as it could be for other retirees.

Selling Your Home

Do you plan to sell your personal residence someday? If your home has increased in value, capital gains tax exposure may be an important consideration.

The sale of a principal residence that has appreciated in value generates a tax obligation on any gain above a specified exclusion amount. Therefore, consulting with a tax adviser is essential *before* you sell.

Excluding Gain on Residential Property

No federal income tax is due on the first $500,000 of capital gain realized on the sale of your principal residence if you file jointly with your spouse — or on the first $250,000 of gain if you are a single filer — provided you meet the qualifying conditions. (See the accompanying box.) For example, a single person selling a home with a cost basis of $100,000 for $400,000 has a $50,000 taxable gain ($400,000 sale price, less $100,000 cost, less the $250,000 exclusion = $50,000).

Only your *principal* residence is eligible for this gain exclusion. So, if you own more than one residential property, it is advisable to look at your options before deciding to sell a particular property.

Qualifying for the Residential Exclusion

To claim the maximum gain exclusion ($500,000/$250,000), you must:

- Own your home during at least two of the five years before you sell it, and
- Use the home *as your principal residence* for at least two of the five years before you sell.

With a shorter period of ownership and/or use, a partial maximum exclusion may be available. Allowable reasons for selling early include a change in health or your place of employment, death, divorce, loss of a job, or other "unforeseen circumstances."

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