

Hidden Secrets for Happy Retirement Planning

RETIREMENT PLANNING

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One of the most important elements of retirement planning is deciding where you're going to be living after you stop working. While some people look forward to moving to a warmer climate or to be nearer to their children, other individuals and couples would prefer to remain in the home where they've lived and created memories for years.

One of the hidden secrets of a happy retirement that often gets overlooked by Canadian homeowners nearing retirement age is that you don't have to sell your home to tap into the equity you've built up by paying your mortgage all of these years.

The average Canadian homeowner invests a major part of his life and earnings in his home. Appreciation of the property's market value adds to the equity of the property. That means that not only do you have the value of the money you've paid into your home all of these years, but you have the increase in the market value. A Canadian reverse mortgage allows you to make use of up to 50 percent of the current market value of your home for living expenses or home repairs while still staying in the home you love.

What is a reverse mortgage?

A [reverse mortgage](#) is a financial product that allows older homeowners above the age of 55 years, who have a substantial amount of equity in their homes get a sizeable portion of that money to use for things like medical expenses, visits to see their grandkids and simply day-to-day living expenses. With a reverse mortgage, you don't have to choose between staying in your family home and living comfortably in your retirement. The amount of the reverse mortgage loan will depend on the market value of your home, the age of the property, your age and the condition of your home.

As long as you live in your home, you're not required to make any payments to repay the amount of equity you've used. (Of course, you'll still be responsible for your property, keep your property in good maintenance, pay your property taxes and property insurance, and your property should not be in default.)

In order to qualify for a reverse mortgage, you or your spouse must be at least 55 years of age. (However, the older you are, the more money you are likely to qualify for.) In addition, you can't have any other mortgage on your home. (If you have an existing mortgage you must use the proceeds from the reverse mortgage to pay off your existing mortgage.) The property also needs to be your primary residence, not a vacation home or a rental property. Trailer homes also do not qualify for this type of loan.

Benefits of a reverse mortgage

In addition to giving you and your spouse additional money for your retirement planning, there are many benefits to a reverse mortgage.

1. Allowing you to use the equity in your home without selling.

The most important advantage of a reverse mortgage is that it allows you to tap into the value of your home without having to sell your home and move. You've spent years creating memories in your family home; a reverse mortgage makes it possible to continue to live with those memories.

2. No credit score is required

Because the loan is guaranteed by the value of your home, no credit check is required. There are also no income requirements associated with a reverse mortgage loan.

3. You can choose how to receive the money.

A reverse mortgage is usually structured to ensure you get the money you need in precisely the way you want it. Whether you wish to receive your money over time or in one lump sum, the choice is yours. Likewise, if at any time you would like to repay the principal and interest in full or switch to paying interest on an annual or monthly basis, you can do that too.* *Prepayment charges may apply

4. You and your heirs are not subject to market fluctuations.

Financial institutions usually lend funds close to only take up to 55% of the value of their homes, which ensures that homeowners have access to the cash they want and also the security needed. If property values decline at the time of repayment, the proceeds from the sale of a home will be less and heirs will be left with less after paying back the mortgage.

5. The money is tax-free.

Because you are accessing the value of your home, not earning additional income, the money you receive via a reverse mortgage is not subject to federal, provincial or local taxes.

6. Your spouse won't have to move if you die first.

Another advantage to a reverse mortgage is that your spouse is able to stay in the home if you die first, without having to make any loan payments. This can also give you peace of mind as you work through your retirement planning.

What happens to your property after you die?

One question most people have when they consider a reverse mortgage is “what happens to the house after I die?” The equity covers the loan amount and other processing fees. On the event of the death of the homeowner, the heirs have an option to pay off the loan to the financial institution and retain the property. Alternately, the financial institution can sell the property to redeem it dues and hand over the balance amount, if any to the heirs.

Keep in mind when you think about retirement planning that, although you have fond memories of raising your family in your home, your children may not be interested in moving back to the city—and the house—where they grew up. When your heirs inherit the property, any proceeds over and above the loan amount are theirs to keep.

Other things to consider about a reverse mortgage

1. Fees.

Like any type of loan, there are fees associated with the transaction. Most lenders require mortgage insurance. In addition, there are closing and administrative costs as with any mortgage. Make sure that you understand the costs as well as the benefits before you sign any loan agreements.

2. You have to pay your taxes and insurance.

Under the terms of most reverse mortgage agreements, if you fall behind in your property tax and insurance payments, the loan is considered in default and you could lose your home.

While a reverse mortgage doesn't belong in everyone's retirement planning guide, this type of loan can help you get the money you need to fully enjoy your retirement years, without having to move to a smaller home.