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Should You Pay Off Your Mortgage During Retirement?

For many homeowners, paying off a mortgage is a financial milestone. This is especially true when you are retired. Not having the burden of a monthly mortgage payment during retirement can free up money to help you live the retirement lifestyle you've always wanted.

To pay off, or not to pay off: that is the question

Some retirees are lucky enough to have paid off their mortgage before they reach retirement. For others, however, that monthly obligation continues. If you are retired, you may be wondering whether you should pay off your mortgage. Unfortunately, there's no one answer that's right for everyone. Instead, the answer will depend upon a variety of factors and how they relate to your individual situation.

Return on retirement investments vs. mortgage interest rate

One way many retirees pay off their mortgage is by using funds from their retirement investments. To determine whether this is a good option for you, you'll need to consider the current and anticipated rate of return on your retirement investments versus your current mortgage interest rate. In other words, do you expect to earn a higher after-tax rate of return on your current retirement investments than the after-tax interest rate you currently pay on your mortgage (i.e., the interest rate that you're paying, factoring in any mortgage interest deduction you're entitled to)?

For example, assume you pay an after-tax mortgage interest rate of 4%. You are considering withdrawing funds from your retirement investments to pay off your mortgage balance. In general, you would need to earn an after-tax return of greater than 4% on your retirement investments to make keeping your money invested for retirement the smarter choice.

On the other hand, if your retirement funds are primarily held in investments that typically offer a lower rate of return than the interest rate you pay on your mortgage, you may be better off withdrawing your retirement funds to pay off your mortgage.

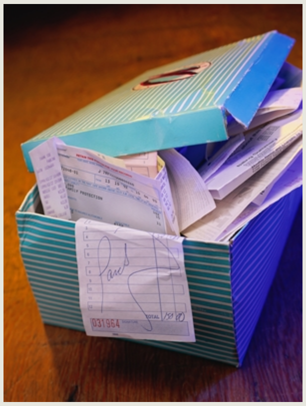
Additional considerations

As you weigh your options, you'll also want to consider these additional points:

- **Effect on retirement nest egg--** If you rely on your retirement savings for most of your income during retirement, you should generally avoid paying off your mortgage if it will end up depleting a significant portion of your retirement savings. Ideally, you should pay off your mortgage only if you have a small mortgage balance in comparison to your overall retirement nest egg.
- **Tax consequences--** Keep in mind that if you are going to withdraw funds from a retirement account to pay off your mortgage, there are some potential tax consequences you should be aware of. First, if you withdraw pretax funds from a retirement account, the amount you withdraw is generally taxable. As a result, you'll want to be sure to account for the taxes you'll have to pay on the amount you withdraw from pretax funds. Depending on your tax bracket, that could be a significant amount. In addition, if you take a large enough distribution from your retirement account, you could end up pushing yourself into a higher income tax bracket. Finally, unless you are 59½ or older, you may pay a penalty for early withdrawal.
- **Comfort with mortgage debt--** For many retirees, a monthly mortgage obligation can be a heavy burden. If no longer having a mortgage would give you greater peace of mind, give the emotional benefits of paying off your mortgage some extra consideration.

See disclaimer on final page

Think Outside the Shoe Box When Organizing Financial Records



If you have questions about how long to keep copies of your federal tax returns and related records, see IRS Publication 17, Your Federal Income Tax. And because states may have different rules, check with your state's tax authority to find out how long to keep state tax returns and records.

If you've ever had trouble finding an important financial document, you know why it's necessary to keep your financial records organized. Less clutter means less stress, and though you'll need to commit a bit of time up front to organize your files, you can save time and money over the long term when you can find what you need when you need it.

What records do you need to keep?

If you keep paperwork because you "might need it someday," your files are likely overflowing with nonessential documents. One key to organizing your financial records is to ask yourself "Why do I need to keep this?" Documents that you should retain are likely to be those that are related to tax returns, legal contracts, insurance claims, and proof of identity. On the other hand, documents that you can easily duplicate elsewhere are good candidates for the shredder. For example, if you bank online and can view or print copies of your monthly statements and cleared checks, you may not need paper copies of the same information.

How long should you keep them?

A good rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. If a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely.

Records that you may want to keep for a year or less include:

- Bank or credit union statements
- Credit card statements
- Utility bills
- Annual insurance policies

Records that you may want to keep for more than a year include:

- Tax returns and supporting documentation
- Mortgage contracts and supporting documents
- Receipts for home improvements
- Property appraisals
- Annual retirement and investment statements
- Receipts for major purchases

Records that you may want to keep indefinitely include:

- Birth, death, and marriage certificates
- Adoption papers
- Citizenship papers
- Military discharge papers
- Social Security card

Of course, this list is not all-inclusive and these are just broad guidelines; you may have a good reason for keeping some records for a shorter or longer period of time.

Where should you keep them?

Where you should keep your records and documents depends on how easily you want to be able to access them, how long you plan to keep them, and how many records you have. A simple set of labeled folders in a file cabinet works fine for many people, but electronic storage is another option if space is tight.

For example, one easy way to cut down on clutter and still keep everything you need is to store some of your files on your computer. You can save copies of online documents or purchase a scanner that you can use to convert your documents to electronic form. But make sure you keep backup copies on a portable storage drive or hard drive, and make sure that your files are secure.

Another option to consider is cloud storage. Despite its lofty name, cloud storage is simply an online backup service that allows you to upload and store your files over the Internet, giving you easy access to information without the clutter. Information you upload is encrypted for security. If you're interested, look for a company with a reliable reputation that offers automatic backup and good technical support, at a reasonable subscription cost.

Staying organized

Keeping your financial records in order can be even more challenging than organizing them in the first place. One easy way to prevent paperwork from piling up is to remember the phrase "out with the old, in with the new." For example, when you get this year's auto policy, discard last year's. When you get an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful).

But don't just throw your financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder that will destroy any document that contains account numbers, Social Security numbers, or other personal information.

Whatever system you choose, keep it simple. You'll be much more likely to keep your records organized if your system is easy to follow.

529 Plans: College Savings Plans vs. Prepaid Tuition Plans

As of June 2012, assets in 529 plans totaled $178 billion, with 88% of that (about $157 billion) in college savings plans and 12% (about $21 billion) in prepaid tuition plans. (Source: College Board, Trends in Student Aid Report, 2012)

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.

With college costs increasing every year and the prospect of too much student loan debt at the forefront of many families' minds, it's important to make college savings the cornerstone of any college financing plan.

Toward that end, 529 plans can be a smart way to build a college fund. People of all income levels can open an account. All contributions to a 529 plan grow federally tax deferred and are tax free if used to pay the beneficiary's qualified education expenses. There are two types of 529 plans: college savings plans and prepaid tuition plans. Both enjoy the same tax advantages, but there are major differences between them.

	College Savings Plan	**Prepaid Tuition Plan**
What is it?	A college savings plan is an individual investment account. You contribute money and direct your contributions to one or more of the plan's investment options, which typically range from conservative to aggressive in their degree of risk. Plans are offered by states.	A prepaid tuition plan is a pooled account. You contribute money and in exchange you receive a certain number of tuition credits, which can be redeemed in the future. Plans can be offered by either states (more common) or colleges.
Can nonresidents open an account?	Yes, college savings plans are open to residents of any state. And you can open an account any time of year.	No, state-sponsored plans are only open to state residents. However, college-sponsored plans are open to anyone. Generally, you can open an account only during open enrollment, which is once or twice per year.
Does the plan guarantee an investment return?	No, college savings plans offer a menu of investment options, and your account gains or loses value according to the investment performance of the options you've chosen. You could lose money investing in this type of plan.	Yes, prepaid tuition plans guarantee to cover a certain amount of tuition in the future based on the contribution you make today. However, some plans have been unable to meet their initial guarantees, so fully research any plan guarantee before investing money.
What education expenses does the plan cover?	Funds in a college savings plan can be used for undergraduate and graduate tuition, fees, room and board, books, and equipment at any accredited college in the United States or abroad.	Tuition credits in a state prepaid plan generally can be used only for undergraduate tuition and fees at in-state universities; tuition credits in a college prepaid plan can be used for undergraduate tuition and fees at member colleges. If the beneficiary attends a nonmember college, there are typically limits on how much the plan will cover.
When can withdrawals be made?	There is generally no time limit.	Tuition credits generally must be used by the time the beneficiary reaches age 30.
What fees and expenses are charged?	College savings plans typically charge an investment fee for each investment option, so be sure to take a close look at your investment choices. Some plans may also charge an initial new account fee, a flat annual maintenance fee, and a withdrawal fee if you decide to switch plans.	Prepaid tuition plans typically charge a flat enrollment fee, and may also charge more miscellaneous fees than college savings plans, such as fees for returned checks, beneficiary changes, or changes to the payment schedule.

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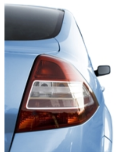

Is there anything I can do to lower my auto insurance bill?

Yes. Insurance companies base auto insurance rates on a variety of criteria, such as your age, driving record, residence, and even the type of car that you drive (though factors vary from state to state). If you find that you're paying more than you think you should for auto insurance, there are ways you can lower your premiums.

- **Shop around:** Auto insurance rates vary from company to company, sometimes significantly. As a result, a good way to save money is to look into whether another insurer offers the same coverage at a lower rate.
- **Consider raising your deductible:** For the most part, the higher your deductible, the lower your premiums. Before you raise your deductible, though, you'll want to be sure you can cover the out-of-pocket expense should an accident occur.
- **Eliminate unnecessary coverages:** For example, if you have an older car, it may make sense to drop your collision and comprehensive coverage since a claim paid by your insurance company may be minimal and might not exceed what you'd pay in premiums and deductibles. Or, maybe you are paying your insurer for roadside assistance coverage that you already have through a separate road and travel club membership.
- **Consider changing the type of car you drive:** The type of car that you drive directly impacts what you pay for insurance. Typically, newer, higher-priced cars and sport/high-performance vehicles cost more to insure than used/lower-end models.
- **Check for discounts with your insurer:** Depending on your circumstances, you may be eligible for one or more auto insurance discounts. For example, your insurer might provide discounts to those with a safe driving record or to those who insure more than one car with them.

One final note: don't be tempted to save money on your auto insurance by lowering your liability coverage limits (although state minimums do apply). Having less than adequate amounts of liability coverage can expose you personally to claims for other people's losses--which in the case of a serious accident, can be significant.

My teenage daughter just got her driver's license. Will my auto insurance rates go up?

The short answer is: yes. Anytime you add an extra driver to your policy, your rates will increase. However, you may end up paying even more when you add your daughter to your policy, since teenage drivers are some of the highest-risk drivers on the road. According to the most recent statistics from the National Transportation Safety Board, teen drivers have represented less than 7% of the driving population but have accounted for more than 13% of drivers involved in all deadly crashes. (Source: National Transportation Safety Board, October 2013)

Fortunately, there are some steps you can take to help make insuring your teen a bit more affordable.

- **Take advantage of policy discounts:** Your first step should be to ask your insurer if your teen qualifies for any policy discounts that are specifically designed for teens. For example, many insurance companies offer discounts (usually around 10% to 15% off of premiums) for teens who complete a driver's education course, obtain a certain grade point average, or participate in a safe driver program.
- **Consider the type of car your teen will be driving:** Typically, new cars are more expensive to insure than older ones. As a result, you may want to consider purchasing an older, less expensive car for your daughter to drive. You may even be able to save more money by forgoing collision coverage on an older vehicle.
- **Consider whether an individual policy makes sense:** In the future, circumstances may arise where it may be more affordable to insure a teen under his or her own individual policy as opposed to listing him or her as an insured on your policy (e.g., he or she gets into an accident or has numerous motor vehicle infractions). When the time comes, ask your insurance agent to help you run the numbers to see which option is more affordable.
- **Be sure to shop around:** You'll want to take the time to compare the rates offered by different insurers. Insurance company rates vary widely, so it often pays off in the end to do your homework.

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