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Is home valid nest egg?

By Gail MarksJarvis

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When Eva Polydoris looks back on the four decades before she retired, she recalls everything that stood in the way of amassing a comfortable level of retirement savings: At first, it was the usual struggles of life, including raising three children and putting them through college.

Then came financial setbacks, such as her husband's early death, substantial medical expenses that drained savings, caring for an ill mother, Kmart stock that went bad when the company went into bankruptcy, losing a job at age 66 and not being able to find another one that paid adequately.

"Things turn out very strange in life; you never know what will happen," she said.

Still, through the emotional hardships and financial disruptions, she - like many Americans - drew comfort from her home. Over the years, she watched its value rise, and subconsciously it provided a sense that she would be fine, even if other forms of saving lagged.

Now that retirement has arrived - earlier than she expected because of the job loss - she is discovering that tapping your home's value to cover basic living expenses is easier said than done. She is starting to envision her future and wondering where cash will come from when her nest egg is locked into countertops, walls and floors that can't easily be turned into grocery money.

"I go to bed at night and think about what to do," said Polydoris, of Lake Forest, Ill.

It's a challenge most Americans face at some point because they pump so much money into homes and save too little, said Craig Copeland, researcher for the Employee Benefit Research Institute. Consequently, they encounter choices that aren't popular: living on scant income, selling their home, or getting a reverse mortgage, a transaction in which the homeowner gives up equity and fees to a lender in return for a sum of money to live on.

Aside from their homes, half of households within 10 years of retirement age have accumulated no more than $88,000 in retirement savings, according to the Congressional Research Service. That could translate into $653 a month for living expenses, if converted into an annuity.

Copeland said that younger families may face a greater challenge as they approach retirement because they have stretched so far to buy expensive homes the past few years, and drawn out equity to pay for extras.

In a recent study, Annamaria Lusardi, an associate professor of economics at Dartmouth College, noted that baby boomers could be particularly vulnerable if the housing downturn grows worse because so much of their wealth is in housing.

On the face of it, she said, baby boomers are better prepared for retirement than generations before them because they have a higher net worth. But when she subtracted housing equity, she found that the median household holds less wealth than the previous generation.

"A decline in the housing market may generate substantial losses," she said. "The behavior of this market should be watched carefully."

So far, the decline in housing has been modest. The S&P/Case-Shiller Composite Home Price Index fell 1.4 percent year over year in the last quarter - the first decline in 16 years. But some analysts believe housing prices will fall further during the next couple of years to remove a record level of unsold homes on the market.

Aside from the immediate effect on their wealth, homeowners have other reasons to be cautious about depending too heavily on housing for retirement. According to retirement saving researchers, Americans are not particularly rational about their housing wealth. There is a disconnect between how they fancy their wealth and what they actually are willing to do to use the value of their homes.

When asked in surveys to think about their financial future, "people think of their wealth in housing," said Nicola Fuchs-Schundeln, a Harvard University professor of economics. But when they are asked about accessing that wealth for retirement, most say there is zero chance they will sell their home.

"It's interesting," Fuchs-Schundeln noted, that people feel security from an asset, but also have no plan to tap it.

Many retirees also find out - as Polydoris has - that tapping the money is more complicated than they might have thought.

After all, Polydoris says she still needs a place to live. And she would like to stay close to the area where she has spent most of her life and has family and friends. Consequently, even if she sells her home, she will need to use a significant portion of the proceeds to buy a replacement residence. She has looked around enough to know it won't be cheap. A multiyear housing boom has pushed home and condo prices to still-lofty levels.

She's not sure her own home has appreciated enough to provide a nest egg large enough to cover both the cost of a new home and living expenses for the foreseeable future.

As economists debate the impact of a housing recession on the economy, the effect is personal to her.

"Maybe I'll have to wait another 10 years to get the value I need out of my home," she said.

Even then, she wonders whether the sale of her five-bedroom home will give her what she needs. It was built in 1969 and suited the values she and her husband held dear - raising a family near a favorite school and church. Now, she's not sure it fits current tastes. She never added bells and whistles like granite countertops and spa baths.

Meanwhile, financial planners say they struggle to get clients to realize that over time homes can become dated and neighborhoods can change - just a couple of the complexities of relying on homes for retirement. Planners complain that the housing boom of the past few years has distorted expectations about home values, and tempted people to see homes as an easy fix for deficient retirement savings.

"People have been acting just like they did in the stock market euphoria in the '90s, figuring they are going to keep getting rich and can retire tomorrow," said Sid Blum, an Evanston, Ill., financial planner.

Planners say some of the people most unrealistic about housing expectations are those who thought technology stocks would be their meal ticket in the 1990s. After loading up on those stocks and getting burned, they bailed out of stocks and poured too much money into homes. With the housing market now souring, planners are seeing the sad results of inflated expectations.

Bob Mecca, a Mount Prospect, Ill., financial planner, tried to talk a carpenter out of retiring early, cashing out his modest retirement savings and sinking it into a townhouse. Because the carpenter was behind in saving, he figured he would boost his nest egg fast by fixing up the townhouse and selling it at a large profit.

Instead, Mecca said, the man used up all his savings and took out a second mortgage on his home to fund the investment project. With the housing market now in a downturn, the townhouse is gutted and the carpenter has no savings to complete the rehab. Mecca says his only option is to sell the dwelling at a loss as a fixer-upper. The man will have to find work so he can accumulate retirement savings.

Likewise, Mecca tried to tell a couple that they were severely overestimating how far they would get with the proceeds from their home sale in Chicago when they retired in Florida five years ago. Now they are learning that money from the sale of a home is not enough. It's running down fast and, with health problems, the couple is looking for work so they can preserve what remains of a humble nest egg.

Trying to sober people up about how far homes will take them in retirement is tough to do, said Kurt Kinder, a Bel Air, Md., financial planner. Just before the housing market started to show weakness a year ago, a man in his 50s came to Kinder for help in planning for retirement. The man had no savings but thought his beachfront condo would provide what he needed. He assumed it would continue appreciating at 11 percent a year for the next 10 years.

Kinder told him it was unrealistic to value real estate at more than the historical rate of about 5 percent a year and tried to talk the man into delaying retirement and working longer so he could build up some savings.

It didn't work. The price to Kinder: He lost the client.

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