

Episode 223: The Truth About Downsizing in Retirement

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SUMMARY KEYWORDS

Retirement income, housing decisions, downsizing, financial planning, reverse mortgages, aging in place, property taxes, healthcare access, transportation options, mortgage debt, investment strategies, social connections, home modifications, cost of living, community amenities.

SPEAKERS

Wade Pfau, Briana, Alex Murguia

Briana 00:00

The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to retirewithstyle.com/style, and sign up to take the industry's first financial personality tool for retirement planning.

Briana 00:41

You might think you'll move, downsize and even simplify in retirement, but that's not always how it plays out. In this episode, Wade and Alex unpack the realities of housing decisions in retirement.

Alex Murguia 00:55

Hey everyone, welcome to retire with style. I'm Alex, and I'm here with my good buddy. Dr Wade Pfau,

Wade Pfau 01:02

hello hello

Alex Murguia 01:04

Oh two Hellos. You must be extra cordial today.

Wade Pfau 01:09

Wow, carefree. We finished Duran Duran challenge. Say again. We finished our big retirement income challenge. We had more than 500 people at one point on, yeah,

Alex Murguia 01:20

throughout, like at one time, but over 1000 registrants, and they have all funneled through. And we did over I don't know what was it like, 300 plus financial plans in the span of two days, and by the end of the challenge next, you know, by the end of Sunday, we'll have, I suspect, 500

real financial plans in the can. So congratulations to all of those who who did it, for those of you who are interested in our next challenge, why don't we get right through it, just on the comments section below? No, we'll have a link. I'm sorry. We'll have a link in the show notes, and you can register for the next one when it comes out. It'll probably be three months plus or minus, more plus than minus, I would say right way.

Wade Pfau 02:02

But yeah, the new, our new funded ratio, was live, and it carried through. It did a good did what it

Alex Murguia 02:09

was, did well. It did well. And we got a lot of good ideas into how to make it better. And now we'll start layering in the the AI into it. So that's going to be really cool. It's coming up. So we look forward to pulling that off now. Wade, you know, a lot of people were listening to the podcast, I win the challenge, and they're all trying to convince you. Hit the PT. Man, hit the PT, right? This is

Wade Pfau 02:32

still the same day as day four the challenge. But yes, Alex made sure to point out I need to get my shoulder looked at. So now that the challenge is done and the funded ratio is up and running. I'll have

Alex Murguia 02:43

a chance to do that. Well, they noticed we took a hiatus on the pull up conversation. So they're like, what's going on here? What's going on here?

Wade Pfau 02:49

Yeah, and it was all because of pull ups back in October. I don't know if we talked about this on the podcast, but why don't

Alex Murguia 02:54

you share this very personal story with everyone

Wade Pfau 02:57

doing a bunch of pull ups, pull ups one day. And it wasn't an immediate like, okay, my arm's done, but something kind of snapped or popped, and it's weird, because it doesn't hurt unless I move my arm in some less than one natural ways. But anyway, at this point, I've learned how not to move my arms so it doesn't really bother me. That's why I keep putting it off. It's just I can't do pull ups anymore. I can't really play pickleball because that requires moving your arm in unusual ways when someone smacks the ball at you. But if I get that fixed, I'll be back on the courts.

Alex Murguia 03:30

There you go. There you go. You know why you pulled your arm? You know why that happened to you? By the

Wade Pfau 03:36

way, old age. You're weak because you're weak. I was working on that at this point. But where you

Alex Murguia 03:46

do have bronze is in the in the gray matter, right in the gray matter. So why don't we continue a review? We've been going through an arc of going through Wade's. You know, new third edition of the retirement planning guidebook, and how's it been going Wade since it's been released? What's been your take on it? Are you happy with sales in the game and the

Wade Pfau 04:08

stuff way to right, way to keep us on task? And yeah, actually, a couple weeks back, there was a reference to it in a New York Times article about Roth conversions, and since then, it's really helped boosting sales. So yeah, it's smooth sailing, pretty happy getting about in the ballpark of 70 to 80 copies a day going out. So yeah, please check it out. It's more reader friendly, shorter. Provides the information you need for the best possible retirement. And that's what our series is about.

Alex Murguia 04:39

And your inspiration for this book was Rich Dad, Poor Dad.

Wade Pfau 04:43

Don't know about that. Maybe the opposite of something like that.

Alex Murguia 04:49

Well, in that way, it was still an inspiration. The anti is it Rich

Wade Pfau 04:53

Dad, Poor Dad,

Alex Murguia 04:55

or poor dad? Rich Dad,

Wade Pfau 04:57

it's Rich Dad, Poor Dad. You would think

Alex Murguia 04:59

it has a better. Rhythm, but you would think you want to end on an up note, right? So do poor dad, Rich Dad. I guess rich dad, right away gets your attention. I don't know. What do I

Wade Pfau 05:07

know would help him get more sales by

Alex Murguia 05:09

I have no clue. Yeah,

Wade Pfau 05:10

he's a buddy of Dave Ramsey. He is, I think so. Or no, maybe not actually. I'm thinking he's a buddy of somebody else. But let's not get into that.

Alex Murguia 05:23

All right. All right. All right. So today, what chapter are we going to be hitting up?

Wade Pfau 05:28

We are in Chapter Nine of the retirement planning guidebook, Third Edition, and that's on housing decisions in retirement.

Alex Murguia 05:35

All right, so let's, let's get, let's kick, let's get right into it. Chapter nueve. So you know, right off the bat, what's involved in preparing to live in the same place long into retirement? So that's the title. Do people actually tend to move because I'm curious, do they move around? Do they not?

Wade Pfau 05:55

Yeah, right. So the chapter is kind of two separate parts. The first part is just really finding the place to live in retirement, and then the second part, reverse mortgages. Well, we'll do that as a separate episode, but yeah, just when you're starting to think about where you're going to live in retirement, yeah, really, the first question is, what are the trends that you may have this idea that a lot of people are moving in retirement, and that's really not the case when we look at data about like, what percentage of the population moves at different ages moving tends to be the highest in your 20s, and it just gradually decay declines, until by the time you get to your 50s, 60s, 70s, those tend to have the lowest rates of people moving for any age group. And then you do see an uptick, like getting into maybe late 70s into 80s, and especially in the 90s, there's an uptick, uptick in moving rates as people need to move to an institution for something like long term care. But that being said, generally, by the time people are getting to retirement, they're getting pretty happy and comfortable with the place that they're living. And so this is just average situation. A lot of folks will move, but just don't necessarily anticipate. It's not like everyone's moving in retirement. It's actually a lot less common than you might think.

Alex Murguia 07:09

So let me pose this to you. So let's say you're doing the sort of the average American thing, right, where you have kids. Kids are in college. You know, by the time you're retiring, they're kind of funneling through college. They're into their first jobs, whatever. The parents are looking around, thinking, we don't need this much space in the house. The house is kind of an asset that's illiquid. So you can tell yourselves, I'm making up numbers, this house is worth a million dollars. Hell, if we downsize, we can buy a similar quality house, just a little less, for \$800,000 we can take that 200,000 and invest and use our assets more efficiently, et cetera, et cetera, et cetera. You're saying that doesn't happen as much as you would think.

Wade Pfau 07:54

Yeah, so, right? I guess related to the idea of moving is also thinking moving to downsize to buy a less expensive home, whether that's a smaller home in the same

Alex Murguia 08:04

area or condo living because I'm tired of cutting the grass whatever,

Wade Pfau 08:09

yeah, or even the same size home, but in an area that has a lower cost of living, you might be thinking on banking on that as a way to get assets to fund other retirement expenses. And certainly there are people that do that, but that's also less common. It happens less common than people appreciate. Merrill Lynch did a study with age wave where they found, what did they find? Well, it's not common to move, but when people did move, only half are moving to actually smaller homes. 19% moved to the same size home, and 30% actually move to a larger home. And when you ask people why they might even be moving to bigger homes instead of smaller homes, the main reason given was just to have space for visiting family members, including grandchildren. Good luck with that. No, not obvious that people are going to downsize. Well, it's not obvious they're going to move. And then if they do move, it's not obvious that they're going to downsize as part of that process. Don't be too eager to think that that's going to save your retirement, necessarily. I can also

Alex Murguia 09:10

think of some parents thinking that I may fall into this category where I don't know if the younger kids, as much in their 20s, go out there and rent an apartment, as opposed to maybe live with their parents for a while to save money for the down payment on their first house. It's not necessarily a failure to launch scenario. It's more of it doesn't make as much economic sense for them to live on their own in their 20s because, you know, apartments are so expensive, etc, etc, that could be that. But you're right. I remember Dean, you know, he got a house in in what was it?

Wade Pfau 09:47

Albuquerque, founder of McLean, SFM, yeah,

Alex Murguia 09:52

Albert, you but what Tucson and he got an extra room in case, like his grandchildren visited. But his grandchildren, their grandchildren, visited maybe once a year, Max, that kind of thing. You think you just put them up in a sofa bed at that point. But you're right. You get that sort of the just in case, kind of optionality. So you don't see people downsizing as much. Other data doesn't show them downsizing as much.

Wade Pfau 10:21

And that's not to say plenty of people do end up doing that. Just don't just assume that that's obviously what you're going to do, because a lot of times you may have the intention and then it just doesn't work out that when push comes to shove, that's not really what you want to do.

Alex Murguia 10:37

So so then the question that begs asking from that one is, if where you're at is, quote, unquote, as good as it gets. And I mean, then the negative just, you know, it is what it is ain't

Wade Pfau 10:49

getting any better. Yeah.

Alex Murguia 10:50

Exactly. Shangri La, what? What are the characteristics of a good place to live?

Wade Pfau 10:58

Yeah? So then, well, if you are thinking, Well, if you're thinking to stay in the same place, or thinking to move, you want to start anticipating what might change as you age. And so what you want to be thinking about. There's a person, professor named Joseph Coughlin at the MIT age lab, who identified three questions, and I think they're really good questions to help you just anticipate you need to have answers for this. So just thinking about, as you age, who will change your light bulbs? How will you get an ice cream cone, and whom will you have lunch with? And so this really speaks to the idea with like, who will change my light bulbs? Maybe, right now, I have no problem doing that. But if I at some point, although now I can't really

Alex Murguia 11:42

my right arm, I was thinking of some elementary school jokes when you said that. But how many X people does it take to change a live

Wade Pfau 11:50

bulb, right? Right? But as you do age, though, making sure. Are you in an area where, if you needed help with things like basic home maintenance, basic lawn care, whatever the case may be, that such help will be available, whether it's family or friends or paid providers, but but making sure you know you have a plan for these sorts of things. With the ice cream cone question, that's really about mobility, like right now, maybe no problem. You hop in the car. You can drive to the ice cream place, get to the Dairy Queen, get your ice cream cone. But if you struggle to drive in the future, will you still have that ability to get out and do those kinds of activities, and then whom will I have lunch with? Is really about the social aspects of especially as mobility tends to decline. Do you have friends or other people in the general vicinity that you'll be able to continue to socialize even with declining mobility or situations like that?

Alex Murguia 12:51

So interesting, but I knowing you, though you would buy the Nestle ice cream cones at the store and just keep them in your freezer, because it's a better deal, right? You don't like to spend money if you don't need to, right? Wade, drumstick, original vanilla ice cream cone, right?

Wade Pfau 13:10

Yeah, the Dairy Queen, that's pretty luxurious.

Alex Murguia 13:14

Yes, that's, that's, that's, I don't know, Wade, that's, that's too high tone for you.

Wade Pfau 13:21

I may not want to splurge on the banana split. No, no, no, no.

Alex Murguia 13:25

Extra sprinkles. Forget it. You'll wake up. That's right, all right, so, but it's but you mean the ice cream in terms of just drive, convenient driving,

Wade Pfau 13:33

depth things, right? Yeah, yeah, just, I want to go drive and do something, making sure that even if you have trouble with driving your own vehicle. That there's other options available in the community,

Alex Murguia 13:45

all right. Now, the other one, I think, is that what you keep on asking me, Hey, where are you going to retire? Which zip code are you retiring in? Is that what you keep on asking me that now, is it because you want to live near that zip code, or you want to live as far away as humanly possible?

Wade Pfau 14:02

Right? Yeah, making sure you're around for lunch, egg salad,

Alex Murguia 14:06

whatever you want, man, you're buying, as long as you're buying all right? So, so what? So beyond that, beyond those like cheat sheets, of what characteristics of a good place to live. Are there any other considerations with regards to the actual home?

Wade Pfau 14:25

Yeah, yeah. There's actually quite a few. And we can really just kind of work through a list of again, this is really what you want to be thinking about over the long term, that as I'm anticipating moving to somewhere where I may not necessarily want to move again after that, unless I'm forced to or something. But some of the things to be considering about affordability, like, is this a place that will be affordable over the long term, and with that, it could be anything from, is it an area where maybe, in some areas, property taxes will freeze for people like once they hit age 65 things like that. Help manage property taxes, or are you an area that's really seen a lot of appreciation in housing, and your property taxes might at some point become unaffordable, so that sort of thing. What is the overall cost of living in the area? Is there a homeowner's association? What will those premiums look like over time. What are the costs of different services if you're doing your own like, say, lawn mowing or snow shoveling? Now, what kind of costs would be involved if you had to outsource that to someone else? That's the sort of thing to be thinking about with, with respect to affordability.

Briana 15:37

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Wade Pfau 16:03

Okay, okay, another category is proximity to family and friends, and we got at that question already with the idea of who will you have lunch with? But are you in an area where you have access to friends and family, if you're moving, are you doing that to be close to family. What happens if, and this probably like adult children, what if they subsequently move? Or what if you in a new area have trouble like meeting new friends, that a reason people tend to not move is just they're really comfortable with the community that they have where they're living right now, and don't want to start over with finding new friends and so forth and a new area, but that's something you do want to be thinking about over

Alex Murguia 16:45

the long term. No, that's a good point. I can speak anecdotally to that where both of my, well, Dean, for instance, we mentioned him earlier. Let's evoke his name again again, but he was in

Tucson, but both of his daughters are here, and Virginia. Yeah, sorry, Northern Virginia. And probably four years ago, three years ago, after being like in Tucson for 10 years, for half the time out of the year, they just stopped, simply because they wanted to be near the kids. You know, sold the house and, you know, bought us in Holland hills in Northern Virginia. So they're there. Same thing with my in laws. They did a similar thing where they had a place in Santa Fe. I didn't do it because they wanted to see me. It was more Christy, my wife and the grandkids. They wanted to be, you know, they just got, wanted to be around them, especially during their formative years. And they kind of don't even go to the Santa Fe house as much, if at all, you know, maybe twice a year for extended periods. And extended periods being a few weeks, you know, they've just got a house here, two, three miles away. And was that

Wade Pfau 17:53

also a case where they assumed you'd go on vacation there every year and

Alex Murguia 17:56

then, yeah, exactly, they did a whole audition. Because, you know, the first time we visited, it was kind of tight, and they did a whole edition just for that. And it's, you know, it's wasn't cost effective, at least for that reason. You know, maybe esthetically, they wouldn't it for the reason. But you know, it just wasn't a cost effective move. I mean, hell, you could have bought a, you know, gotten on a, rented out a, b and b for six months out of the year, it probably would have been the same cost. So, yeah,

Wade Pfau 18:28

okay, but yeah, that's definitely like what you want to be thinking about as well another category, and that's where those areas, Tucson or Santa Fe might be more attractive than Virginia, at least in certain seasons, but the agreeable climate, community and leisure activities, is this a nice place to live, is really what you're getting at there? And I think a lot of motivation is becoming a snowbird or moving to an area with a warmer climate that can be attractive, especially over the long term. Or maybe you are someone who likes living in an area with quite chilly winters. You like having the real four seasons of the year, but something that for your preferences, what works best for you? Again, anecdotally, and

Alex Murguia 19:08

this is from our clients. It's not like they did a big age wave study, but we've seen this with our clients, where if they do move, what's becoming attractive are sort of Metro downtown areas where everything is walkable. Whereas, if you're in Northern Virginia, Arlington, the area of Clarendon, you know things where there's like a little city center, more than that, but there's just so much walking around, so much walking around, that you can get to everything. So the need for a car becomes less, less essential. You know, whereas, if you're in a suburb, it's a little tougher. But there are certain neighborhoods where everything is walkable, and that in itself, you see, it becomes a destination. For many of our clients when they're deciding that this kind of thing at this age, we get many, many folks actually moving, but they're not. Moving like, I want to move to the, you know, have my own, like, gentleman's farm or anything like that. They kind of want to move in, you know, closer to the city, inner city, almost. So everything is just accessible, even like, you know, I like the art, so I want to be able to, you know, do the symphony every year, this or that, and it's just one metro stop away, or five blocks away, or something like

Wade Pfau 20:20

that, yeah, or college towns and auditing craft, is that sort of exactly 100% Absolutely, a place that has good activities, yeah? Well, I mentioned college towns, but golf course, if that's something that's interesting to you, living near a golf course, maybe pickleball,

Alex Murguia 20:38

pickleball courts, a must.

Wade Pfau 20:41

Those are popping up everywhere at

Alex Murguia 20:43

this point. Yes, and don't complain about the noise, just deal with it.

Wade Pfau 20:48

Yes, okay, but you got that. Another issue is, if you are thinking to do part time work in retirement, of course, I guess this is reductive or redundant, but living in an area where the the kinds of work you'd like to do are actually practical and available to you. Healthcare. This is kind of an important one to think about healthcare and long term care. Just are you living in an area with good medical centers, with long term care options in the general vicinity and so forth, so that if you do need access to more healthcare services at a later time, they're available within the community without too far of a commute. That's that's something diverse, transport.

Alex Murguia 21:31

Oh, yeah, what I think about, and this is, at my age, I'm not retiring, but when we were thinking about, Hey, should we get something in, like the Shenandoah, you know, as a kind of second home. I'm definitely afraid of, like having a heart attack or breaking my leg and being, you know, half an hour away from a hospital or something like that. It's one of those things that bugs me, and I'm not at that age, so I can imagine if, as you're getting older, that becomes a huge consideration in terms of, like, accidental slips and being able to have access to care immediately, yeah,

Wade Pfau 22:05

yeah, close to the medical facility that has good quality care. Absolutely, we have to make it you one of those buttons that were popular in the 1980s that yes on and I can't get up 100%

Alex Murguia 22:17

100% low Jack me. Low Jack me.

Wade Pfau 22:20

Away. Okay, but another consideration diverse transportation options, and that's not well now these days, things like Uber or Lyft are making that easier. But also, are there community facilities available, like vans that will help transport seniors to medical appointments or things of that nature. You may not need that now, but just thinking ahead, are there a diverse range of transportation options that can help you out again if you get to a point where driving becomes more

Alex Murguia 22:50

difficult, this goes back to being more inner city oriented, like downtown oriented, as opposed to urban oriented, as opposed to suburban oriented.

Wade Pfau 23:01

Yeah, yeah. The suburbs, if you're becoming less mobile, the suburbs can become more of a trap, because it's hard to get out and you're kind of isolated in the house, and it can become much more difficult to have social interactions and to be part of the community. So anticipating that well in advance is kind of what we're just important things to be thinking about when you're making that consideration about a long term move, and that's my list for that particular topic. So all right,

Alex Murguia 23:34

so then, what are other considerations, then when settling into a permanent home?

Wade Pfau 23:39

Yeah, so when you are then getting into this is somewhere I'm thinking, to stay more permanently. Aging in Place is an important topic. So you're moving into a home that you really want to be able to stay in over the long term.

Alex Murguia 23:53

When you answer that, moving into a home, also I would, I would answer that by adding things you can do to your current house if you don't want to get to another home, things you can do to your house to kind of

Wade Pfau 24:04

transition that Right, right? Yeah, this applies. Or if you're not moving you're wanting to stay in the same place, what can you be doing to ensure that it's practical, that you can stay in that same place over the long term? And so there may have

Alex Murguia 24:16

that little like wheelchair thing that goes up the up the up the staircases. That would be awesome.

Wade Pfau 24:21

That would be an option. That's a that's kind of thing.

Alex Murguia 24:25

So after seeing Gremlins, did you ever see gremlins? I think they killed the grandmother, like that. They like rigged it so it just shot up through the staircase.

Wade Pfau 24:36

I digress typically, but yeah, that's an example, but yeah, other options. So just in the bathroom, walk in showers, having grab bars available, just other bathroom safety features, having, well, in lieu of having that, what you were describing, just having everything on one floor of the home, so that you don't necessarily have to go upstairs, you have. Kitchen, a bathing facility, a bedroom, all on the same floor, having a built in elevator and or the mechanical thing that carries you up the stairs that you were describing. Those are other things, having a wheelchair accessible home, whether that means building a ramp into the home, widening doors,

potentially having hallways widened so that you can easily get around the home. Things like door handles. Being able to twist a door handle becomes more difficult. Having levers, oh, I just lost my page, but having levers for your door handles rather than twisting knobs. That that would be a relatively cheaper thing to do, but that's something to help anticipate all this happening at more advanced stages. Good lighting in the home, making it easy to see accessible cabinets and closets and lower counters, so that you could potentially do cooking in the kitchen while in a sitting position, something to consider softened non skid flooring to help cushion any falls. Being careful about rugs or other things on the floor that could be tripping hazards, because the tripping that's a dangerous aspect that can lead to a lot of downward spirals.

Alex Murguia 26:15

Ultimately, no, as you get older, you can tend to shuffle your feet. It's kind of one of the precursors of even Parkinson's. So, yeah, even picking your feet up by half an inch becomes not, not, not as reflexive as you think. And then warnings, right?

Wade Pfau 26:33

And then other, just new technologies that can help, like a smartwatch or things to your point, from before, monitoring your health status monitoring, that you're taking the medicines you need. That's not necessarily something you build into the house, but it's also a consideration, no, but it's something that, if

Alex Murguia 26:49

you can't do that, then can you stay in your house by yourself? And I'll say this, and this is, again, anecdotally, because my parents went through this, they're a little past the stage now. They're both in a home, but effectively, like pill organizers, my parents were making a mess out of their, you know, daily medication. They were making a meal of it. And so it got to the point that, actually, I used Amazon prescription pill packets that that sort of separate your doses and everything for you. And I have to say that worked wonders for my parents. If they didn't have that, they would have needed to have some sort of on how in house care or move somewhere else simply to manage their medications. It really, you know, as their executive functioning, you know, decrease the complexities of just medication management was untenable. And so to your point, that does affect your ability to stay in the house, because if you can't manage that, where are you right? The other piece that worked really well for my parents, you talk about technology, but not necessarily for your you know, handheld but like those Amazon echoes, or the Google or the equivalent Google one, I forgot what that's called, where, effectively, have an in house system. They differ from Ring Central for your doors. That ring may have that, but you're really, I was really able to set up a smart home, if you will, for my mom through the Amazon Echo where making sure the lights are off or on, et cetera. There's a timer around things. If I wanted to call her. I could, if I wanted to, kind of video, I can, I can, like, force the video to see what's going on in the house and making sure she's okay, that kind of stuff. It was great. It was actually quite well. And it was able to, you know, I was able to kind of notice, Okay, it's time, or it's or, Hey, look how you don't, you know, it's set up for quick and quick and dirty communications. Being that I was in, effectively, Northern Virginia, and she's in Miami. So I think technologies are there that really allow you to tether yourself, you know, with somebody else that you know, a family member, or something like that, that they can keep an eye on you without that person needing to be there. You know, 24/7

Wade Pfau 28:59

Yeah, yeah. And that's an area that's just with technology improving all the time, it's going to get easier and easier, easier and easier to do that. Okay, so then the other just last topic for today, before switching over to reversal mortgages, we're working in that direction, and it's just the whole topic of while we're talking about housing, carrying a mortgage into retirement, and whether you want to do that or not, if that's a point is this is a trend. More and more people are getting to traditional retirement ages while still having a mortgage. And when we talk about sequence of returns, risk and retirement and everything, if you have this fixed mortgage expense in the early retirement years, and you're having to sell from your investments to pay those mortgage payments that can create more risk for the financial plan. So do you want to carry the mortgage into retirement, or would you like to pay it off before getting to retirement or and we're not going to get in this into this today. We'll do it next week. But do you want to finance into a reverse mortgage to take those fixed payment obligations out of the early retirement years. You tell me, yeah, well, well, you have options there. But another point about all that is, generally, you're probably like, mortgage interest can be deductible of below the line tax deduction if you're not itemizing, but later in a mortgage, a lot more of the payment becomes paying down principal rather than interest, so the odds of actually being able to deduct interest payments does become less and less. So there may not be any real tax benefit. Sometimes people just think it's a tax benefit to have a mortgage, but that's only if you're itemizing and only for acquisition debt for the home and so forth. So you may not get any tax benefits from the mortgage. So that would speak against carrying it for that particular reason. I would

Alex Murguia 30:57

imagine the thinking is more along the lines of not so much that. But hey, I have \$200,000 left on my mortgage. I have 400,000 I don't know. I have an \$800,000 investment account I could take from it and pay off the mortgage. I and I have more. You would probably need more investments. I, you know, but you know what? I'd rather just pay monthly the mortgage, and I'm banking on the market to kind of appreciate,

Wade Pfau 31:23

yeah, the common argument that I think that's

Alex Murguia 31:25

what somebody would say, I'm not for it or against it. I'm just thinking that's, that's the response that I'm sure some of our listeners are having while they're listening to you.

Wade Pfau 31:33

Yeah, the idea that you're kind of leveraging the mortgage

Alex Murguia 31:36

margin, you know, your mark, not margining, but you

Wade Pfau 31:38

know, well, the more money, like a negative bond. It's a bond that you're paying the interest payments and coupons instead of someone else paying you. So if you have a negative bond, that means, from the household balance sheet perspective, you have a higher stock allocation. Or just another way to think about it, is, yeah, you expect that your investments were in a higher rate of return than you're paying on the mortgage. So you can arbitrage the additional gains

from your investments to have more wealth overall and generally, doing that entails risk. Unless you're one of these folks who got real lucky in the recent past, and you may have a mortgage with lower than 3% interest rate, then it's pretty easy today to just have very low risk investments that would exceed the mortgage rate. But more generally, you often have to take risk to have your investments outperform the interest you're paying on a mortgage. And do you want to take that risk? Or it may just be, maybe you could reasonably expect keeping the mortgage would pay off, but it becomes more of a psychological thing, where you're just you'd sleep better at night, you'd feel more comfortable not having the mortgage, and then it can make sense to pay it down just to have that much less stress for your retirement.

Alex Murguia 32:53

What are you planning on doing?

Wade Pfau 32:55

I actually most of the time, I do things pretty rationally about investing and so forth.

Alex Murguia 33:00

But I actually that way, do not opine on your rationality. Let me do that. But what

Wade Pfau 33:06

do you think about doing? I already don't have a mortgage. I Yeah, look at you in hindsight, I would have been better off leveraging it for the investments.

Alex Murguia 33:18

But why did you do it? Just a peace of mind for you, and that's

Wade Pfau 33:25

fine the mind not having but when we moved again to Texas, I remember the hassle involved in getting a mortgage when we had moved to Pennsylvania before that, and just, I don't want to deal with it. Yeah, you

Alex Murguia 33:36

probably did well in terms of property, selling a property from Philadelphia,

Wade Pfau 33:41

going to Dallas? No, really, there was no appreciation on that.

Alex Murguia 33:46

Oh, really, but you could you buy it? Well, okay, never

Wade Pfau 33:49

mind, but Dallas was a less expensive. There's been appreciation in Dallas since I moved to Texas, but for the six years I was in Pennsylvania, we had a slight decrease in the home value. It shot up after I moved, but no, I didn't benefit from housing.

Alex Murguia 34:04

Appreciate you just doing it. You were gonna get the tax benefit from the deduction enough to warrant doing that seriously, just like the hell with

Wade Pfau 34:11

it, pretty much fair

Alex Murguia 34:12

enough, that's fine. Follow your comment below. Please mortgage pay your thoughts on wage decisions. We want to know

Wade Pfau 34:27

that's right now. That's one of those things. Well, I invest pretty aggressively, but I guess that's okay. I'm mostly in stocks, but I'm not going to leverage it by having a negative bond also. So I paid off the mortgage, and now I can justify being mostly in stocks, because it's another way you can think about it.

Alex Murguia 34:47

I'm not judging, just asking,

Wade Pfau 34:49

Okay, but yeah, that's pretty much what we have for the first half of Chapter Nine of the retirement planning guidebook. And then there's still more content we'll do in next week's episode. We'll talk about reverse mortgages, which is the other important aspect, if you do have an eligible home, do you want to consider that as part of the financial plan?

Alex Murguia 35:09

All right, everyone, thank you, and we'll catch you next week on retire with style. Bye, everyone.

Briana 35:17

Wade and Alex are both principals of McLean Asset Management and retirement researcher both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you consult your financial advisor. All investing comes with the risk, including Risk of Loss past performance does not guarantee future results.