

RETIREMENT

Is Your House Your Nest Egg?

If so, you may need to lose a few risky misconceptions **BY AMANDA GENGLER**

If you've been reading this magazine for any length of time, you surely get that saving for retirement should be your top financial priority.

Even so, the past decade's easy appreciation in home values has made such fundamental advice seem, well, a lot less urgent. Or so suggests a National Bureau of Economic Research paper recently published in the *Journal of Monetary Economics*. Comparing results from the biennial University of Michigan Health and Retirement study, researchers found that, excluding home and business equity, 51- to 56-year-olds hold less wealth than the same age group did in 1992. "These boomers look richer, but a lot of that wealth is because one asset [their house] revalued," says co-author Annamaria Lusardi, a professor of economics at Dartmouth. "Excluding housing, people have very little in other wealth components." (The study did leave out 401(k) savings, but the median balance for those accounts for a similar age group is only \$50,000, while fewer fiftysomethings can look forward to guaranteed income from pensions today than could in 1992.) The results call for a reality check: Are you banking too much on your house?

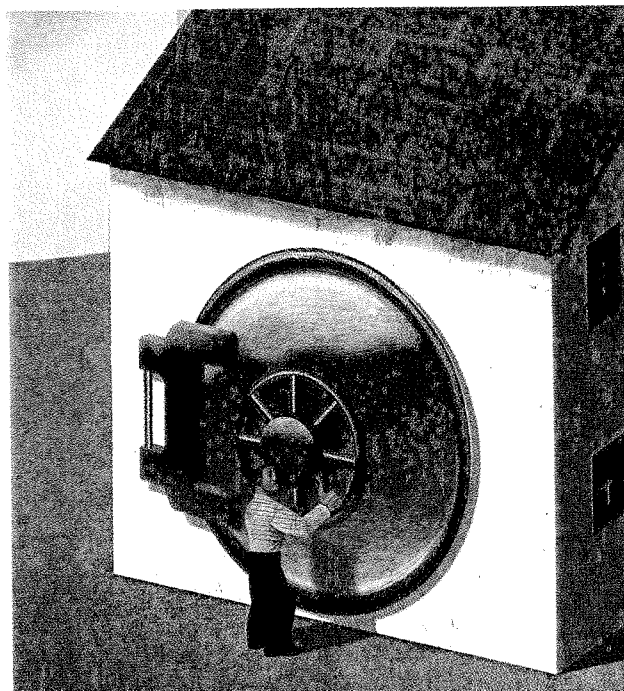
MYTH: "MY HOME IS A SURE INVESTMENT."

TRUTH: Your home value may have more than doubled during the boom, but real estate markets have also been known to suffer prolonged stagnation, even downturns (see the 8% drop in median prices this past year in some areas). If there's a bust on the cusp of your retirement, your pot of gold could turn up half empty. Besides, the past 10 years aside, history suggests that homes don't give much long-term return compared with other investments: A dollar invested in residential real estate in 1963 has barely outperformed a low-risk T-bill, according to a 2007 Fidelity Research Institute report.

MYTH: "DOWNSIZING WILL LEAVE ME FLUSH WITH CASH."

TRUTH: Even if the market is up when you're ready to exit the work force, you're unlikely to ever see the appreciation in cold hard cash. Prices on smaller homes jumped too during the

...**Sold!** The state with the highest closing costs, according to a Bankrate.com study: **New York, at \$3,830.** The lowest? Indiana, at \$2,339...



HOUSE RICH, CASH POOR

Assets held by 51- to 56-year-olds today are much greater than those of the equivalent group in 1992, but that's mostly due to housing gains.

	1992	2004	
Total net worth	\$136,260	\$152,000	+11.6%
Nonhouse wealth	\$49,140	\$47,500	-3.3%

NOTES: Inflation-adjusted. Excludes 401(k), pension income and business wealth. SOURCE: National Bureau of Economic Research.

boom. In Baltimore the median price of a single family home is \$278,800; a condo is \$239,300. Savings: less than \$40,000. Unless you move to a less pricey area—think San Francisco to Omaha—"you're unlikely to greatly improve your financial picture," says financial planner Jim Sonneborn of Chatham, N.J.

MYTH: "I CAN ALWAYS TAP MY EQUITY AND INVEST IT FOR EVEN BETTER RETURNS."

TRUTH: Interest rates are up, with average home-equity loans and lines of credit topping 8%. So the hurdle is higher. Earning average stock-market returns above 8% will require years of riding market ups and downs, time you probably don't have. As for reinvesting the funds in your home, the days of making it all back are over. A kitchen redo recouped 80% on average in 2006, according to *Remodeling* magazine.

THE BOTTOM LINE: Saving for retirement is still Job No. 1. Your home may provide a roof over your head in retirement, but you'll need cash if you want to eat. **\$**