

by Ilyce_Glink

Q: I have \$60,000 in an IRA that has not been managed well since 1998, but that's a question for another time. Here's my situation: I owe \$30,000 on my mortgage at an interest rate of 6.785 percent. The loan will be paid off in about 7 years. I'd love to get out from under the house payment of \$730 per month and put an additional \$500 per month into my 401(k) plan at work. What do you think about taking \$30,000 out of my IRA to pay off the mortgage? I know I'll pay taxes on the money and perhaps a penalty, but in my view, the end justifies the means. Would I be able to retire earlier? A: I don't think much of your plan because if you crunch the numbers, you'll see that robbing your IRA to pay off your current loan isn't going to make it easier to retire; it's going to put it off longer. Ilyce R. Glink's latest book is *100 Questions Every First-Time Home Buyer Should Ask*, 3rd Ed. If you have questions, you can call her radio show toll-free (800-972-8255) any Sunday, from 11a-12p EST. Cashing out your 401(k) to pay off a low-interest home loan makes no sense. You'll pay up to 35 percent in federal tax, plus state taxes, plus a penalty of 10 percent if you're under age 59-1/2. All in all, you'll have to cash out just about your entire \$60,000 in retirement savings to pay off a \$30,000 loan that's at a relatively low interest rate - and by the way, you're basically done paying interest on the loan so you're only repaying principal at this point. Then what's your plan? You're going to repay your 401(k) plan \$500 per month, or \$6,000 per year? It'll take you 10 years just to get back to where you are today, and in the meantime, your \$60,000 could have grown to \$120,000 if you earned a return of just 7.5 percent per year on your money. I'd advise against tapping your IRA for anything other than life-threatening emergencies. And by the way, if your IRA isn't being well-managed, do some research at Morningstar.com and find some better investments. Q: My inquiry is non-typical, and I'm relying on your expertise in the matter. My wife and I own and operate an assisted-living facility in Baltimore, MD. One of our residents is 89. In about two months she will have exhausted her financial resources to pay us. However, she owns a home free and clear that's probably worth about \$140,000. My wife and I don't want to force her to move because she can no longer afford our care. I'm wondering, based on the above information, if there's a way to transfer title of her property to our entity/corporation, or perhaps do some sort of assignment of equity that would enable us to keep her as a resident as long as she lives, and grant us the equity or title to the home that we could use to pay down her debt to us. This client's daughter and son-in-law are considering moving into this woman's vacant home to eliminate their rent costs. If she transfers title to us, or we set up some other arrangement, we'd agree not to sell the home as long as her children were living there. A quick response would be very much appreciated; or do you know of a reputable and expert real estate attorney in the Baltimore area that you could refer us to? A: Let's start with your last question. Unfortunately, I don't refer my readers to attorneys, mortgage brokers, inspectors, appraisers and other service providers, nor do I put them in touch with each other. It's just the column policy. But I do think that you've asked a serious question and it's clear you care about your client, and not just the size of her wallet. Talk to your patient and her children about her financial condition and her future financial obligations to your facility. Ask them how they wish to handle the situation. They may like your idea of setting up some sort of equity sharing arrangement, based on how much longer their mother stays at your facility. If they refuse to do anything and you don't want to toss your patient out on the street when her money runs out (which is commendable), talk to an attorney about your legal options. One option may be to put a lien against her property for the amount of services she will receive. To find a good attorney, contact the Baltimore Bar Association. © 2007 Real Estate Matters "Tribune Media Services