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Ask Encore

Advice on personal records,
homes and Social Security

—BY KAREN DAMATO



When looking at retirement savings, should one include home equity? For those of us in the Midwest, we certainly cannot treat home equity as an asset class that is likely to grow at a strong pace such as the inflation rate plus 5%. In addition, you have to live somewhere—so maybe it would be conservative just to forget about the home equity value. With so much of America's wealth tied up in our homes, it seems like an important question.

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THIS IS, INDEED, a key question for people doing retirement planning. And it is one on which professional financial advisers disagree.

Home equity can play a huge role in funding retirement when people move from a large home to a significantly smaller one or relocate to a less-expensive region. But many people can't or won't do either, says James Wilson, a financial planner in Columbia, S.C. That's why he generally tracks home equity—a home's value minus mortgage debt—as a personal asset, rather than part of the financial assets clients are building toward retirement. "I think you don't count it unless you *know* that you are going to be downsizing," Mr. Wilson says. In particular, he doesn't want clients to go light on savings because they are relying on the increasing value of a home.

Still, heading into retirement with substantial home equity is clearly better than not having that asset. And it's possible to turn that value into cash without moving, says Richard Ferri, an investment manager in Troy, Mich., who does count home equity in calculating clients' financial resources for retirement.

For instance, Mr. Ferri says an increasing number of people are turning to reverse mortgages—arrangements in which older homeowners essentially sell their home to a lender in exchange for monthly payments, a lump sum or a line of credit. The borrowers stay in the home until they die or choose to move out.

ENCORE WELCOMES YOUR QUESTIONS. KAREN DAMATO, A STAFF REPORTER IN THE WALL STREET JOURNAL'S, NEW YORK BUREAU, CAN BE REACHED AT ENCORE@WSJ.COM.

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