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# Using Retirement Savings or Taking a Mortgage to Buy a Home

Q: I've just retired and I just put my house on the market. I'm not sure how long it will take to sell, so I'm thinking of buying my retirement condo now instead of not waiting for the old house to sell. Should I take a mortgage — which I'm not sure I will qualify for because I'm no longer working — or withdraw from my 401(k) to pay for the new place? What are the tax consequences if I take from my retirement accounts instead of doing the mortgage?

A: You basically have three choices to pay for the condo: using debt, equity or a combination of the two. Each of these funding options has pros and cons which are reviewed below.

Funding the purchase with equity requires that you draw from any taxable or tax-deferred assets you have, said Eric Fury, a certified financial planner with RegentAtlantic Capital in Morristown.

That would include a checking/savings account, brokerage account or retirement accounts.

If you consider going the retirement account route, it could be costly.

"Any withdrawals from your 401(k) will be taxed as ordinary income and you'll have to pay a 10 percent penalty if you're under the age 59 ½," Furey said. "Note, however, if you replenish the funds within 60 days of the withdrawal then you avoid any of the funds being taxed to you."

You also need to know that withdrawing a large sum from your 401(k) may significantly impact your income tax liabilities, said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge**.

"If you are looking at a six-figure withdrawal it may place you in the 33 percent federal tax bracket if you are single, and could cause you to lose deductions through phase-outs, or pay alternative minimum taxes," Mott said. "In addition, new taxes were enacted to fund the Affordable Care Act and include a 3.8 percent tax on investment income for single filers with adjusted gross income over $125,000."

For the debt option, you can consider a traditional mortgage, a cash-out refinance of your current home, a home equity line of credit or even a pledged asset or margin loan, Furey said.

With a traditional mortgage or cash-out refinance of your current home, you'll still need to show the lender you have income, part-time employment, Social Security income or Required Minimum Distributions from an IRA or retirement plan account.

Furey said a home equity line of credit is often easier to obtain since your house is the collateral for the debt.

"How this would work is you take a loan out using your current house as collateral, purchase your retirement condo, and pay off the line of credit upon the sale of your current home," he said. "Typically, it takes between three and four weeks to close on a home equity line of credit."

A pledged asset or margin loan is similar to a home equity line of credit, but instead of using a house as collateral, you'll use securities in a brokerage account, he said.

"If you lock in a fixed interest rate for a certain period of time then you are using a pledge asset loan," he said. "A margin loan is a variable rate of interest which usually changes monthly and the loan doesn't have a finite expiration."

You also have the option to mix and match any of these methods based upon your needs and what's available to you, and be sure to consult with a tax advisor to determine the tax deductibility of any interest charged on any loans and the tax impact of direct withdrawals from an IRA and/or 4 and/or 401(k), Furey said.

Even though you're eager to buy the condo, being patient could be a better strategy, Mott said.

"Even though selling your home is preventing you from getting on with your plans, taking a mortgage or dipping into your 401(k) could prove to be a costly decision if it takes some time for your home to sell," she said. "I would recommend that you wait it out so that the proceeds from the home sale can be put toward your new condo and hopefully leave you mortgage-free in retirement."

If you do consider borrowing, Mott said you need to understand how your budget would be impacted by taking on the additional loan payment as well as taxes, insurance and utilities while you still have some of these same expenses for your existing home.

""If you are just making ends meet currently then the added cost of the second home might drain your savings and leave you high and dry, especially if your primary home doesn't sell quickly," Mott said.

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