



The John Fraser show, 29/11/2007

“Planning for Retirement,”

with Laurie Wiid Director NFB Financial Services Group

JOHN FRASER: There are various promotions for a scheme under which elderly people are encouraged to hand over the equity in their home in return for a cash sum which will help make their golden years a little more comfortable, but is this a good idea? To discuss it, I’m joined by Laurie Wiid, Director of FNB Financial Services. Of course if people have paid off their bonds and they’re living in a house which is worth possibly millions, that is money that they could possibly draw on, and if they just sit in the house and don’t do anything with it, they’re not getting much benefit.

LAURIE WIID: It is quite advisable to hang onto equity investments in your retirement, but the reality is a lot of retirees are finding a pinch on their month cash flow, and it has been a common scheme to re-access finance from your home and use that in your retirement years.

JOHN FRASER: And what would they spend the money on typically? Would they invest it or go on a nice holiday, or home improvements?

LAURIE WIID: Typically that kind of investment is best spent on home improvements, adding value to your investment and thereby capitalizing on it, but spending it on a holiday is an option but certainly not advisable.

JOHN FRASER: What are the dangers of following this course? Possibly you live to 100, you might run out of the money you’ve borrowed on your house.

LAURIE WIID: It used to be not a problem - everybody kept accessing money - but as you get older, the bank does start to have a look at your affordability of repaying that loan one day. So they might look at it and

say you need to start paying off capital and if you do not have the income to meet that monthly payment, it puts further pinch on your daily budget.

JOHN FRASER: Could you end up in a situation where you might have to sell the house?

LAURIE WIID: You certainly could be in a forced sell position, which is never a good place to be as a home owner if buyers are under the knowledge that it's going to be a pressured sale, and we would not recommend you get into that amount of debt.

JOHN FRASER: What are the other options? Assuming you reach retirement age, you've got a big house, the kids have moved out, it's a bit big for you, maybe there are security worries - can you sell the house and invest the money in maybe a smaller property and put some of the balance aside? Is that one option?

LAURIE WIID: Yes certainly. Downscaling is the way we would certainly recommend. Putting some money in your pocket, investing that, getting further growth investments, and possibly additional income. The dilemma of course is the trauma of moving, the cost of selling, the cost of buying a new home - those costs all spiral and it might not put you in such a good position, and you might elect to stay a bit longer, and that is where it becomes difficult to monitor the equity in the house versus the debt.

JOHN FRASER: What about if you wanted to move? Say you're in the part of Gauteng that gets a bit hot in the summer and you fancy a bit of sea air - might there be the possibility of selling the house and maybe buying a smaller property near the sea, for instance?

LAURIE WIID: Certainly. Retiring at the coast I think is everybody's dream and the cost of living down there is supposedly cheaper. I think we certainly know we'll spend less on security, the lifestyle is more relaxed and probably more conducive to retirement, and I'm sure that everybody would love to have their grandchildren come and visit them down by the coast rather than be locked indoors behind big walls and security in Johannesburg.

JOHN FRASER: And what about the options for somebody who's sitting in a house, you've reached a certain age, you've got improvements to do, you've done everything that you think you should have done prudently, but you've got a great big car? Is a large car something that retired people really could and should put money into, or there better ways of making sure that you hold onto your capital?

LAURIE WIID: There are certainly better ways of investing your money than buying a big, fancy car. The dilemma too is the security and safety of the motorcar, and the value of motorcars unfortunately are depreciating assets, so the more you spend on a motorcar, the more you will lose when you sell that as a second hand car. We would encourage downscaling of motorcars, but still not compromising security and safety in the vehicle you choose.