

Money

How to Plan for Retirement If You Won't Have Home Equity to Fall Back On

By: [Martha C. White](#)

Editor: [Katherine Peach](#)

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Historically, the typical American household's biggest asset held was its home. While stock market gains over the past several years have [flipped](#) that, giving equities the greatest share of household wealth, homes still remain a major component of net worth for millions of families.

But affordability constraints are pricing more Americans out of the housing market — especially would-be first-time homebuyers who struggle to afford the median down payment of \$86,820 (which climbs to well over six figures in many parts of the country). As a result, the first-time homebuyer population is getting older, with some estimates finding that the [average age](#) now coincides with middle age.

A recent [survey](#) from life insurer Northwestern Mutual finds that roughly a quarter of millennials and almost a third of Gen Z members say financial challenges have forced them to delay buying a home. With mortgage rates [creeping](#) toward 7.5%, these dreams are likely to remain deferred. Anecdotal [reports](#) suggest a growing cohort of young adults have [rejected](#) the conventional wisdom that homeownership offers a ready path to financial security in retirement.

The upshot? More Americans could reach retirement with little or no home equity — either because they're still paying off a mortgage or because they spent their working years renting.

“People like the idea of retiring without a mortgage. That may not be realistic anymore,” says Tim Steffen, director of advanced planning at Baird. In addition, homeowners who were able to [lock in](#) an ultra-low interest rate by purchasing or refinancing in 2020 or 2021 might be better served financially to keep that low rate rather than pay it off early.

"As you're heading into retirement, you should make sure you've got other resources to support yourself," he advises.

What to do if home equity isn't part of your retirement plan

Not owning a home doesn't consign you to a retirement of austerity, but you should be more proactive in your preparation, according to planners. If you're expecting to retire with little — or no — home equity, here are expert-recommended steps you can take now to improve your long-term stability.

Lock in more guaranteed income. "The larger your non-discretionary expenses, the more important it is to have that income flow in place," says James Mayo, principal at IronFjord Wealth Management in Lakewood, Colo. "For people that have a larger degree of fixed living expenses, I'd be more open to looking at a product like an [annuity](#)," he says. This insurance product, purchased for a lump sum, provides a guaranteed income stream in [retirement](#).

"A basic annuity is a way to buy yourself a very vanilla pension," Andy Panko, a financial planner in Iselin, N.J., told [Money](#) earlier.

At the very least, Mayo suggests waiting to claim Social Security until age 70, when you'll receive your maximum monthly benefit and take full advantage of delayed retirement credits.

Mayo adds a cautionary note, though. While annuities can provide guaranteed income in retirement, they don't include regular cost-of-living adjustments (COLAs) like Social Security payments do. While there are inflation-adjusted annuities on the market, those cost more than annuities with fixed payments.

Look into a long-term care insurance policy. Mayo says many homeowners view their house as a resource they could tap if they need long-term care in their final years. While there are potential drawbacks to doing so, it's a useful strategic starting point. For lifelong renters who don't expect to have home equity in retirement, long-term care insurance can help replace that resource. (Note, though, that it's best to purchase this before your retirement years because it can become more expensive and more difficult to get a policy as you age.)

Build tax-diversified savings. While homeowners might be able to tap into the value of their dwelling with a home equity line of credit, renters — even those with well-funded 401(k)s — can run into trouble if they incur a significant, unexpected expense, according to Peter Gallagher, managing director of Unified Retirement Planning Group in Briarcliff Manor, New York.

Withdrawals from tax-deferred accounts are taxed at ordinary income rates, which means a big withdrawal could bump you into a much higher tax bracket, plus expose

you to Medicare surcharges levied on high-income retirees. (The challenge this poses is magnified because you'll need to withdraw more than you need to account for those taxes.)

"It's a tough situation, really, because with their limited assets... there's only so many buckets you can draw from," Gallagher says. Working with a fee-based financial planner can help you explore Roth conversions, which can generally let you withdraw money tax-free in retirement.

Build a savings buffer. Without accrued home equity in retirement, experts say it's smart to create a cash cushion in a taxable brokerage account — ideally, while you're still working, so those funds have time to grow. You'll pay taxes on realized gains, but that will be at the lower capital gains rate.

"I would highly suggest [they] pay themselves first into a brokerage [account](#), even into a balanced fund that can get 6% to 9%," Gallagher says. "Even if you start with \$50 a month in an after-tax account... you have time on your side."

Commit to future flexibility. Even though homeowners have to cope with rising property taxes and homeowners insurance premiums, "It pales in comparison to rental costs," Mayo cautions. "[It's] going to be one of your largest expenses... and it's unpredictable."

Renters need to have more flexibility in their budgets — and their lifestyles — to accommodate this uncertainty. "Try not to go into retirement with too many fixed absolute expenses [and] build some flexibility into your budget," Steffen says.

This can include being willing to move, he adds. "Maybe you look at downsizing, perhaps relocating to a more affordable area. It may not be a lifestyle you can support in retirement. There's no silver bullet. You just have to learn to work with what you have."

Martha C. White writes about business, finance and the economy. Her work has appeared in The New York Times, CNN, Time, NBC News, Money and other outlets.