



Is It Time To Get That Retirement Home?

By Sheryl Nance-Nash | July 7, 2013

As mortgage rates inch upward and the housing market shows little signs of recovery, some people may have a sense of urgency that they should buy that retirement home while the getting is still good. But rushing can lead to ruin when it comes to buying a retirement home.

That's not to say that you shouldn't take advantage of what could be some of the lowest interest rates and home prices that might be around for a while, though who knows with this unpredictable economy, but if you do decide to proceed, do so carefully.

It's not just about buying the home, but expenses like maintenance, security system, since you're not living there, insurance, (know too that property insurance for a second home can cost more than a primary residence) among others. If the home is in another state, who will watch it for you? If you plan to rent the home, that may help cover some expenses. According to HomeAway, vacation home owners who rent through them are able to make an average of \$28,000 in rental income and more than half of their owners report that they are able to cover 75% or more of their mortgage from renting their homes as vacation rentals.

You should have a separate account designated just for funding expenses for your retirement home so you can track activity and budget effectively, says Tayne.

When trying to determine what you can afford, one rule of thumb says to consider the payment for a second home only with discretionary income. If it takes two incomes to make the payment, it could be too risky. Be sure you talk to your accountant about the tax implications of a retirement home.

You shouldn't even consider buying a second home if haven't taken care of the basics, like having a hefty emergency fund and a healthy start on your retirement savings.

But don't just think about your current budget, but your future budget. "Will you be able to afford this home when you're living on social security, pension and retirement funds? Make sure you calculate this accurately so you avoid finding yourself out of money in retirement," warns Tayne.

Consider too, the impact this home will have on your finances should an unexpected situation arise, such as a loss of income due to a layoff, or illness.

Think through all the details

When it comes to buying a retirement home, there are a myriad of considerations. "How liquid is the area historically,



WHEN SENIORS PLAN AHEAD,
IT CAN BE AN IMPROVEMENT
FOR QUALITY OF LIFE BY
PUTTING THEM IN A BETTER
FINANCIAL POSITION.

—Dan White



Can you afford a retirement home?

Although it may be a smart idea to purchase a future retirement home while mortgage rates are low, "really think about how that will affect your income and expenses," says Leslie Tayne, an attorney with the Law Offices of Leslie Tayne, specializing in debt issues. "What will this do to your budget?"

Depending on the circumstances, a new home can be a very shrewd move, or a significant drain on assets for seniors. "It has to fit into a broader retirement plan," says Dan White, president of Daniel A. White & Associates.

if you should have to resell? All areas go through cycles. Is the area boom and bust like Florida, and how long are the cycles historically?” asks real estate agent Michael Kieffer of RE/MAX ELITE.

Does the area have a diverse property tax base other than retirees? “You don’t want the property taxes being paid only by people on fixed incomes. Some areas have high sales taxes (such as the Carolinas), which double taxes for someone that is living off savings. Does the state have an income tax? The entire tax picture can affect how long your savings last,” points out Kieffer.

How is the medical care in the area? Does the climate suit you year-round? If you buy a home, even a small property in a different state, it can make the probate process extremely complicated, says Mitch Adel, senior partner with the law firm of Cooper, Adel & Associates, which specializes in elder law and estate planning. “This is one situation where having a comprehensive estate plan makes all the difference. A trust can make it significantly easier to handle the legal implications of a second home.”

Simply put, do your homework. “We have friends whose dream was to move to Belize. They had been there many times on vacation and decided to move a year ago. They did not think through that many of the lifestyle things we enjoy here are very expensive or not available there for year-round living,” says Kieffer. To make a long story short, he says they stayed six months and returned home after losing a substantial amount of money.



Glen Mills, Pa.-based Daniel A. White & Associates has been helping families explore strategic financial planning options since 1987. For more information, visit www.danwhiteandassociates.com or call (610) 358 - 8942.

Know too that there are always unique circumstances that defy the rules. “One of my retired clients recently moved into a larger home with a bigger mortgage (and undertook renovations). But for this couple, it made perfect sense. They were moving in with a married son and his wife, who were planning to pay the mortgage and take over the house when the parents were ready to go to a retirement facility. Every situation is different. Make sure you’re looking at the whole picture to do what’s best for your family’s future,” says White.

For sure, timing is everything, but buying before you’re ready is a recipe for disaster. ■