RETIREMENT PLANNING SERIES

Retirement Location

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Retirement Location Considerations

Retirement provides retirees with the opportunity to make changes that may have been difficult to implement while they were working. One of those opportunities involves deciding where to live. Upon retiring, some people move to be closer to family and friends, while others sell their homes and travel the world. We will walk through items retirees may want to ponder as they decide where they will live during their retirement.

Current Home

An obvious choice is to spend retirement in the same home where the retiree lived while working. For those who own their homes, this may make a lot of sense as they will likely have their mortgage nearly paid off and therefore will have one less expense during retirement.

With the large increase in home values in recent years, there is also a possible tax incentive to remain in a current home. Assuming a retiree's home is worth much more than they originally paid for it, including any value added through home improvements, the homeowner may be subject to capital gains tax on a portion of the sale proceeds. An individual has a $250,000 exemption and married couples have a $500,000 exemption; any gains above the exemption amount would generate capital gains tax. Further, a retiree should assume that the costs involved in selling a home will add up to between 8% and 10% of the sale price.

New Home

Buying a new home is another option some retirees choose. This could mean downsizing to a smaller home or a condo for less maintenance. It could also mean moving to a location closer to loved ones and friends for ready access to socialization opportunities. Alternatively, it could involve securing a home with an accessible single-story floor plan that would allow retirees to age in place. Retirees may also finally buy their dream home to enjoy during their senior years.

For those who do not own a home, a move to a less costly area may be one option for decreasing housing expenses. Relocating to an area with more affordable housing could even allow a retiree to buy a home in retirement and have fixed housing expenses (assuming they secure a fixed-rate mortgage) instead of being subject to rent increases.

New State

Some retirees decide to move to a new state in retirement. Anyone relocating across state lines should research taxes in the new jurisdiction to anticipate any impact on their budgeted expenses. One item to consider is whether the state they are moving to has a state income tax and, if so, how the rate compares to the income tax where they currently live. The same applies to state sales tax. Property taxes also differ from state to state and warrant investigation.

Additionally, the new state may impose a state estate tax that could be a higher rate than the retirees' current state of residence and could be assessed on a lower asset threshold; both scenarios could result in more estate taxes due upon the death of the retirees. We encourage anyone moving to a different state in retirement to update their estate plan to account for the laws in their new home state, which may involve hiring an attorney who is licensed in that state.

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Second Home

Other retirees may decide to buy a second home during retirement. If it is in the same state where they currently reside, additional property taxes will be levied, but many other tax issues will be the same as with their first home.

If the second home is in another state, the tax considerations outlined above will apply. How the retiree splits time between states could also influence which state is treated as their primary residence, with implications for their tax situation while living as well as the taxes on their estate. We recommend that anyone in this situation consult with their accountant and estate attorney to ensure full understanding and the best planning.

New Country

The adventure of emigrating to another country may appeal to some retirees. This type of move will involve tax considerations along with all the other requirements for individuals moving to the new country. Americans retiring in another country will owe taxes in the United States on withdrawals from their retirement accounts and Social Security income, and they will likely owe taxes in their new country of residence as well. Retirees who emigrate may want to engage accountants in both the United States and their new country to help them cover all the bases with respect to taxes.

Emigrating retirees will also want to notify their banks, investment companies, and credit card companies of their move to ensure they can access their accounts from the new location. A U.S.-based bank may allow retirees to access their accounts online, but the institution could charge fees for getting cash in the local currency. Emigrating retirees may want to establish a banking relationship in their new country of residence if they anticipate needing ready access to cash. Many investment companies are only allowed to work with U.S.-based clients, so retirees may need to change investment firms to maintain access to their funds. Credit cards generally will work in another country if the card company is notified of the activity in advance.

Living abroad may also require changes to estate plans, so retirees will want to work with their attorney to modify their plans accordingly. This may involve a referral to another attorney more experienced with estate planning in the new country.

Emigration involves several additional considerations. There is the matter of securing a visa for the move, along with the question of what to do with personal belongings. Retirees can take items along, sell items, or store items for an eventual return to the United States. Regarding safety abroad, emigrants may want to register with the Smart Traveler Enrollment Program (https://step.state.gov/step/) to receive information from the local U.S. embassy during any type of emergency situation. Retirees should also evaluate their health insurance and find out whether it will cover them in the new country.

Nomadic Retirement

Travel tends to be a priority for retirees. Some retirees even sell their homes to fund a nomadic lifestyle. People come up with various creative ways of implementing a nomadic lifestyle, but our focus is on the considerations that relate specifically to retirement. An item to consider is whether there will be a home base for mail and visitors. Many things can be transmitted digitally, but renting a post office box can be convenient for collecting items that may not lend themselves to digitization. Maintaining a home base is also helpful in providing family and friends a place they can visit, even if for only part of the year.

Another item to evaluate are the circumstances that would lead to an end of the nomadic lifestyle. Nomadic retirees may plan to roam for a specific timeframe after which they'll establish a permanent residence. Other nomadic retirees keep their plans open-ended. However, health issues can interrupt travel plans, so retirees who intend to travel extensively will need good health insurance that applies everywhere their itinerary takes

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them. We also encourage retirees to devise contingency plans for when and how their travel years will end. This will help avoid the stress of making rushed decisions if a health event pushes them to end their travels sooner than they would like.

Retirement Community

Retirement communities appeal to many retirees who feel that the option aligns with what they hope to get out of their retirement. These communities may offer amenities such as daily activities, social clubs, outings to local museums, in-house chefs, exercise rooms, and movie theatres. All of these are designed to engage the residents and help them connect. For some retirees, this type of community sounds ideal, while for others, nothing beats remaining in their own home.

Retirement communities can require a buy-in payment to get a room, which is in addition to the monthly fees, so the impact on a retiree's nest egg requires careful consideration. Some facilities do not provide any care, causing retirees to move if their health deteriorates. If a move is required, that may involve another buy-in at the new location. Continuum of care communities are gaining popularity because they allow residents the option of independent living or some care assistance with one buy-in, rather than a buy-in for two communities. Some of these communities even offer full nursing care.

Summary

The topics covered above are not exhaustive and are not intended to be so. Instead, we hope that this paper has provided helpful information for people to mull over as they near retirement. Retirement is an exciting time, and we recommend developing plans for a desirable and sustainable living situation that will allow retirees to enjoy this time to its fullest. These plans may involve consultation with attorneys, accountants, and finance professionals along with family and friends.