

SHOULD YOU DOWNSIZE FOR RETIREMENT?

It may be better to sell that big home rather than keep it.

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

You want to retire, and you own a large home that is nearly or fully paid off. The kids are gone, but the upkeep costs haven't fallen. Should you retire and keep your home? Or sell your home and retire? Maybe it's time to downsize.

Lower expenses could put more cash in your pocket. If your home isn't paid off yet, have you considered how much money is going toward the home loan? The typical mortgage payment in the U.S. represents about 30% of gross income and about 50% of after-tax income.¹ When you move to a smaller home, your mortgage expenses may diminish and your cash flow may greatly increase - and don't forget about interest savings over the life of the loan.

You might even be able to buy a smaller home with cash (if finances permit) and cut your tax liability. Optionally, that smaller home could also be in a region with lower income taxes and a lower cost of living.

You could capitalize on some home equity. Why not convert some home equity into retirement income? If you were forced into early retirement by some corporate downsizing, you might have a sudden and pressing need for retirement capital - another reason to sell that home you bought decades ago and head for a smaller one.

The lifestyle reasons to downsize (or not). Maybe your home is too much to keep up, or maybe you don't want to climb stairs anymore. Maybe a condo or an over-55 community appeals to you. Maybe you want to be where it seldom snows. On the other hand, you may want and need the familiarity of your current home and your immediate neighborhood (not to mention the friends attached).

If you decide to downsize, it may not pay to wait. Anyone who wants to retire in the current economy needs all the financial resources that can be mustered. Of course, the real estate market will eventually improve; it depends on how long you want to wait for improvement. Some people want to retire and then sell their home, but it may be wiser to sell a home and then retire since homes tend to sit on the market these days. If you sell sooner instead of later, you can always rent until you find a smaller house that could save you thousands (or tens of thousands) of dollars.

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Citations

1 - investopedia.com/articles/pf/07/downsize.asp [7/2/10]