

Where to live After retirement

For most people, their home is their greatest asset. It is more than bricks and mortar and a roof overhead. It is a lifetime investment and an accumulation of cherished life experiences.

When you retire, your housing expenses may demand up to 35 percent of your budget. These expenses can impose economic burdens on you. You could find yourself house rich but cash poor.

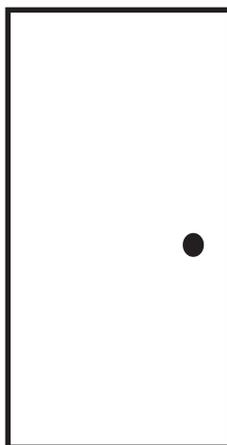
Since housing reflects your life-style, first take a good look at yourself, then it will be easier to make decisions about the kinds of living arrangements that are best for you. The time to think is before you are forced into a decision.

You will find a wide range of housing options available to you. Any one may prove best for you, so consider a variety of choices before you make a decision. Here are some considerations to keep in mind.

Location

Choosing **where** to live in retirement could be the most critical housing decision of your life. You may be less flexible financially than when you were younger, and your retirement home could be your home for the next 25 years.

Start your search by determining why you might want to move to a new location. The most popular



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reasons are to reduce expenses, live in a smaller home, and enjoy a warmer climate. There are many other reasons to consider.

Cost of housing

When you think about housing possibilities, consider how your present home compares with other options. If the mortgage on your home is paid, your housing expenses are probably lower than you'd find in any comparable living arrangement. However, you may find it costly to maintain a house that was adequate for your family. Maintaining an older house in good condition can put a strain on the retirement bankbook. It has been estimated that keeping an older house in repair costs 2 percent of the home's value annually.

To arrive at an amount you can afford to pay comfortably for housing, add up the cost of all other necessities — food, clothing, recreation, medical care, and so forth — and then subtract that sum from your net income. When determining the costs, be sure to include cash to meet emergencies.

If you can afford to, why not stay put? There are two possible and important reasons. **First, trading down to a smaller residence could bring a gain, which invested elsewhere, could produce monthly income.**

Also, if you or your spouse is 55 or older, you may exclude from capital gains taxes a profit of up to \$125,000. The home you sell must have been your principal residence for at least 3 of the past 5 years, but it need not have been your principal residence for 3 successive years. This is a once-in-a-lifetime bonus. If a person who has used the capital gains exemption remarries, neither partner in the new marriage is eligible for the exemption.

All taxpayers, regardless of age, can postpone taxes on capital gains from a home sale if they buy a more expensive home within 2 years. If you realize a capital gain that exceeds \$125,000, you can defer tax on the excess by reinvesting the money in a new residence.

Selling a house

What is best for you depends greatly on whether you need to raise money from the sale of your home — and how much. If your expected income from Social Security, pensions, investments, and other sources falls short of your requirements, you may have little choice but to tap your prime asset.

Selling your house may provide enough cash to defray your housing costs and free considerable cash for achieving your retirement goals.

If your money were not invested in the house, it could be earning interest for you. For example, say your house is worth \$80,000. You could invest that money at 8.5 percent and earn \$6,800 per year or \$565 per month. By not selling, you are giving up \$565 each month for the privilege of owning your home.

Before you sell your home, try to find out what you will need to spend for a suitable replacement. If your potential profit is small, trading down to a smaller residence might not be worth the trouble and expense. Be sure to take into account any savings you will realize from reduced maintenance and property taxes.

If you would prefer to live in your home for the rest of your life, but can no longer afford it, another option is to sell the home to your children. Following the sale, you would become a tenant, paying rent at the going rate for comparable homes. If your children take out a mortgage loan to pay for the home, they will have the tax advantages of rental ownership. One thing to keep in mind if you are 55 or older is that you will have to pay income tax only on any gain in excess of \$125,000. If you are not yet 55, any gain is taxable.

Housing choices

You will not only need to choose the right location for your new home, but you will need to decide what type of housing is best suited to your needs.



Own a single-family house

Owning a single-family home offers maximum privacy and space.

There are at least four financial reasons for owning a house. First is equity build-up. Your down payment plus your regular principal payments result in your building equity. Second, a home is an investment that helps you keep up with inflation. Although not all homes appreciate at the same rate and some years are better than others, real estate values have historically kept pace with and usually exceeded the rate of inflation. Third, mortgage interest and real estate taxes are deductible from your income tax. Fourth, you usually can realize some or all of the cost of improvements when you sell your home.

Owning a house also means maintenance chores and expenses — a lot of expenses. If you are considering buying a house, you may want to review the expenses involved:



- ✓ down payment
- ✓ closing costs
- ✓ monthly mortgage payments
- ✓ real estate taxes
- ✓ occasional special assessments levied by the city or county for improvements such as paving roads or installing lights
- ✓ costs of maintenance and repairs
- ✓ insurance premiums
- ✓ costs of utilities and trash collection



Remember, if you buy a new home, the cost of window coverings and landscaping can add thousands of dollars to the initial cost of the house.

If you must borrow to pay for your new home, give careful consideration to the types of mortgages available such as fixed interest rate and variable interest rate.

Depending on the home you select, it may actually cost less than renting, and you may have the advantage of deducting mortgage interest charges from your income tax.

Own a duplex

Still another option is to own a duplex, or two-family dwelling. The rent paid by your tenant ought to cover at least part of the building's interest and tax costs, in addition to covering all the expenses connected with the rental unit. You will be able to deduct from your income tax the costs of maintenance and repairs related to the rental unit.

But remember, being a landlord brings with it a certain amount of responsibility, including the upkeep of the rental unit.

Rent an apartment

Renting an apartment minimizes your responsibilities and gives you maximum freedom. If you decide to move, you won't be pinned down by the task of selling a home, which could prove difficult if the real estate market in your area goes soft.

Generally, all you need to do is pay your rent each month and the building management handles interior and exterior maintenance. However, you will probably have less space than in a home, less privacy, and your monthly payments will not build equity in the property. Also, it is likely that your rent will increase each year.

Be sure to read the lease carefully and insist that the landlord explain to you any point about your rights and obligations as a tenant that you do not understand. Do not rent on impulse; many leases compel you to live in a particular apartment for at least a year before you may move.

Buy a condominium

A condominium is actually an individually owned home in a multi-unit project. You hold title to your unit, which is often similar in design to an apartment or townhouse. In



addition, you share ownership in the common areas of the project, such as parking areas, grounds, walkways, lobbies, and recreation facilities.

In a condominium you enjoy many advantages of apartment living and of single-family home ownership. Maintenance of the common property is handled for you. Maintenance costs and taxes on common property are paid through a monthly maintenance fee charged to each unit. You also are responsible for mortgage payments and taxes on your living unit.

Because you purchase a unit, you build equity in the property and can sell your unit when you move. You also get tax benefits, but if you are in a low or moderate tax bracket, you will not benefit as much from the deductions.

A word of caution: If you are thinking of buying a unit in a condominium development, proceed slowly. Be sure to read and understand thoroughly all the documents available from the developers and owners. These documents specify in detail the terms of the sale and the rules to which residents must adhere. They can be complex and are often difficult to understand.

As in an apartment, you must not expect the privacy you would have in a house. However, a well-organized and well-managed condominium development is a secure and comfortable housing option.

Buy into a cooperative

Housing cooperatives combine apartment living with property ownership. Instead of owning the unit in which you live, as you would in a condominium, you purchase shares in the corporation that owns the cooperative property. As a co-op member, you hold a proprietary lease, similar to an apartment rental lease, on the unit you occupy. As an occupant or co-op member, you are obligated to pay a proportionate share of the cooperative's expenses, which include maintenance costs, taxes, and mortgage interest

(a tax-deductible expense as with a home or condominium).

Aside from the occupancy agreement on payments and the living rules and regulations, you should consider equity share. Most cooperative housing arrangements focus on the concept of limited equity, which means you may realize only a percentage or no appreciation on the value of your property should you sell your membership share in the cooperative. The purpose of equity limitation is to keep the cooperative within financial reach of people of moderate income. (If you look upon your home as an investment, there are cooperatives with arrangements for departing members to sell their membership and equity share for whatever the market will bear.)

When the potential obstacles are overcome, co-ops are a workable, community-spirited housing alternative that is well worth serious consideration.

Buy into a retirement community

"Retirement community" refers to an often small and self-contained complex that provides at least minimal services to its residents. In addition to offering shelter and security, retirement communities usually stress a variety of recreational and social activities for you to participate in along with your peers. Beyond this, retirement communities differ greatly, offering a wide range of housing options and a number of personal care levels. They are geared primarily to older people.

For example, the retirement community may be an entire new town or subdivision or just one high-rise apartment building. The "established community" usually consists of detached houses, townhouses, and perhaps one multi-level apartment building. These developments generally feature recreational facilities and accommodations for social gatherings.

Another kind of retirement community is the continuing care center. These complexes usually include houses, apartments, and a



nursing home. (Their supportive environment lends itself to long-term stays and the security of lifetime care.)

A third type of community is housed in a single high-rise building. Meals are offered in a common dining area, and light housekeeping is provided. Other services usually are limited.

The cost of living in a retirement community varies with the housing and activities provided. Most require residents to pay a monthly fee to support services (e.g., grounds upkeep and building repair and maintenance). You would pay additional fees for meals and activities, and some request you pay a substantial “user fee” upon arrival. Communities that provide continuing care offer optional contracts for this service. Contracts usually require a prorated entrance fee as well as monthly payments to cover services, care, and housing.

If you are thinking of moving to a retirement community, make an on-site visit to see what conditions are really like. Other factors you should consider are cost (both present time and projected); flexibility of the community to adapt to your needs as they change with time; and implications and commitments involved in life-care contracts.

This type of housing can introduce you to a kind of living where the focus is on the elderly. There is a homogeneity of residents with kindred interests and problems, which may be appealing to you.

Buy a manufactured (mobile) home

Because manufactured homes are produced in factories with efficient production techniques, a home and lot will cost less than a comparable site-built home. The name “mobile home” should not give the impression that mobility is the chief advantage of such housing. Given the size of some of the homes available, you cannot transfer them effortlessly from one location to another.

Some of these spacious homes have four bedrooms and three baths. Manufacturer-

produced homes also offer a variety of choices in design and other amenities. When you buy a manufactured home, you usually purchase a complete housing package including furniture.

The space, affordability, energy efficiency, and construction standards of mobile manufactured homes have made them a desirable living arrangement. Federal law requires that all manufactured homes meet construction, durability, and safety requirements of the Department of Housing and Urban Development.

In addition to paying less for the investment, mobile home owners can realize savings in not having to buy land and in having taxes that are lower than for private homes. Some states tax mobile homes as though they were vehicles rather than residences. In Idaho, mobile homes are taxed as residences, based on their market values.

Be aware that financing a manufactured home is somewhat more difficult than financing other kinds of housing.

Other options

You may find you need to generate more income, to change your housing arrangements so you are around other people on a regular basis yet maintain your privacy. If so, you may want to explore one of the following alternatives.

Accessory apartments

If your house feels too big for you, you may decide to convert part of it into a self-contained apartment unit. This is called an accessory apartment.

An accessory apartment can provide you with additional income as well as the security and companionship of having someone live nearby. Moreover, tenants may be willing to provide services in return for rent reductions, although you both would need to understand clearly what is expected.

The design or layout of the original house



determines the ease with which you can create an accessory apartment. Creating an apartment in some homes can be relatively inexpensive. In others renovation costs may be prohibitive and might not increase the value of your home.

Before you do any remodeling, find out if zoning regulations in your community permit such an arrangement. Neighborhoods zoned for single-family homes or with restrictive covenants may prohibit accessory apartments.

If accessory apartments are permitted, get several estimates of renovation costs from building contractors or architects. Also, ask real estate agents how much rent you will be able to charge. Then determine whether the rent and companionship will be worth the costs of renovation and of increased utilities, taxes and insurance.

Home equity conversion plans

Some people can get money from their homes without leaving them or making regular loan payments. These “home equity conversion” plans let you turn the value of your home into cash without having to move or repay a loan each month. Since home equity conversion plans are relatively new, they are not yet available in some states of the United States.

A brief explanation of two home equity conversion plans follows. This should give you a better understanding of possible future opportunities.

Reverse mortgage — The most flexible and adaptable type of home equity conversion is the “reverse mortgage,” so called because it works much like a standard mortgage loan in reverse. To take out a reverse mortgage, you must already own a home free and clear or nearly so. The reverse mortgage loan is paid to you in monthly installments or other payment options over a number of years. In most reverse mortgages, no payment is due until you die, sell your home, or permanently move away. At present, there are three basic types of reverse mortgages: the Federal Housing

Administration-insured reverse mortgage, the lender-insured reverse mortgage, and the uninsured reverse mortgage. They differ according to type of loan advance, payment schedule, and kind of loan costs.

All reverse mortgages use up some or all of your home equity, leaving less for you and your heirs in the future. The major advantage of a reverse mortgage is that it allows you to convert some or all of your home equity into cash while you retain ownership and benefit from some or all of the future appreciation of your property.

Sale leaseback — In a sale leaseback, you sell your home to a buyer, who then leases (rents) it back to you. You become a renter with a lifetime lease in the home you just sold. The amount you pay for rent each month is less than the monthly purchase payment you receive from the buyer. So you end up with more cash each month. In addition, you are no longer responsible for property taxes, insurance, major maintenance, or repairs.

A difficult part of a sale leaseback is finding a buyer willing to delay taking possession indefinitely. Also, the tax advantage of owning rental property (income tax deductions for expenses and depreciation) has become less attractive in recent years. This means the likeliest sale leaseback buyers probably will be investors who expect there to be substantial future appreciation in your property, people who are attracted to your home as a future retirement home for themselves and may view its purchase through sale leaseback as a retirement planning device, and friends or family members who are motivated in part by wanting to help you remain in your home or to keep the home in the family.

Many other issues need to be considered in a sale leaseback including terms of the lease, rate of rent, purchase price for your home, amount of the monthly payment you receive from the buyer, amount of the down payment, length of the loan term, and others. All these factors will determine your long-term income security.



Retirement housing checklist

A wide range of housing options, including a single-family home, an apartment, a condominium, and others, are available to you upon retirement. Shop around and compare. By completing the following checklist you can compare costs and features of each housing option, and then can make an informed decision.

Rate by cash amount or by good, fair, or poor.

	Single-family home	Apartment	Condominium	Mobile home	Other options
Down payment, deposit, or entrance fee					
Monthly payments					
Taxes					
Insurance					
Repair and maintenance					
Utilities					
Special services					
Furnishings and appliances					
Space					
Privacy					
Social and recreational opportunities					
Transportation to church, store, etc.					
General atmosphere					
Other					



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