Dorchester Advisors
Money worked harder

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Things You Control

Downsizing your Home for retirement

Generally all investments should be evaluated dispassionately. But, your primary home is an important investment that comes with some emotional strings attached.

As a practical matter your home comes with deep emotional attachments: The peace of mind that you have a place to live; the memories you have accumulated there, and indeed the financial gains you may have enjoyed. And, the triggers to evaluate selling or buying your home also tend to be driven by life events rather than “markets”: A growing family or becoming empty-nesters, a new job, Retirement, and as we recently experienced the reaction to the Pandemic.

Clearly, many **non-financial** issues go into the downsizing decision. For example:

Right-sizing your home when your current place is too big or no longer meets your needs. Why pay for expensive school districts if your children are grown up? Or why spend hours to maintain a large home? Or a home that is no longer configured for your needs (e.g. has no master bedroom on the first floor).

You are the last couple standing. The families that made your neighborhood “your neighborhood” are gone.

You see a retirement community as an attractive alternative to get involved with new neighbors and lifestyle.

Your career and company no longer dictate where you live. Younger folks may have the option to telecommute, while those in retirement may no longer be tied to the city and state where they live.

But, it’s also important to keep **financial** issues clearly in mind as well, and to not let emotions overpower them. For example:

Downsize to monetize your home. This is a fancy way of saying: pay off your mortgage and Bank the cash. It can also result in a home better sized for your current living requirements, possibly in a more life-style appropriate location. But there are pitfalls to keep in mind:

- While comforting this may not always be the ideal financial decision; run the numbers before deciding.
- Be cautious of making sub-optimal decisions about prices: We tend to overestimate the value of our home and we tend to underestimate the ultimate cost of a new home.
- We may enthusiastically overspend on upgrades in the new home reducing the net cash pay-off.
- Factor in moving and transition costs; moving is not cheap.

You may owe taxes on the sale of your existing home. Couples can currently exclude $500,000 in profits from taxes, but if your profits are higher than that then you may owe taxes. (*As with any tax matters, complexities may arise so please get professional advice*).

Explore the “1031” tax rule if you want to sell your home, buy another and preserve your life-time capital gains shelter. (*Tax professionals can guide you here too*).

Explore reverse mortgages before selling your home. These allow you to continue to live in your home till you pass and provide you monthly cash flow till then. (Of course the net money you will get at the end for your home will be smaller as a result).

As always, we encourage you to consult with your tax advisor before implementing any tax strategies.

Why Things You Control are Important

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we do not control. We hope the markets will get higher and we will make money. Or we worry that markets will collapse and we may lose all our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we do control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals. Of course, life holds few guarantees! So, for example, while we all hope that our favorite stock pick will be a high performing stock, not implementing a properly diversified portfolio is plainly irresponsible to our financial well-being.

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Our Financial Planning Principles

Without a Purpose, accumulating money can become a soul-less task. A financial plan gives your savings a purpose.

It's OK to be broke when you are young - not so when you are old: Studies show that people typically tolerate risk and uncertainty better when they are younger.

Getting down from Mount Everest mountain is as important as getting up: Pay as much attention to accumulating money before you retire as you do to consuming it after you retire.

Planning is life-stage dependent: The principles of saving and investing money in your early years are very different from the techniques that you use in retirement to generate a reliable income stream.

Financial confidence comes from being on top of your taxes, protecting yourself from risks, having a clear picture of your investments and debt, and specific targets for saving and spending.

Achieving financial independence requires a careful balancing of Income, expenses, taxes, and savings. This balancing act (planning) is not intuitive, nor can it be done well on the back of an envelope, but effective plans do give more peace of mind.

Identify your true risks (in contrast to investment volatility, labelled as risk, or uncertainty) and take action to manage them using the correct risk management tools. Pick the right tools for the job - investments won't manage the risks you face, risk products (insurance) won't deliver the growth and flexibility you need.

Taxes remain important even after you retire. However, in retirement your investments become the principal source of your income and hence drive your taxes.

In matters of health: it's your body but your doctor knows better how your body works. So it is with your money: A partnership with an advisor will help you to reach your financial goals - you save, they help your savings grow. Together you can get there faster.