Lighten Up

Moving to a smaller place isn't a step backward—it's a chance to do more with less

With home prices at record highs in most parts of the country, have you asked yourself lately if it makes sense to be clinging to the big old place you've lived in for years? Ever since the kids moved out it has seemed awfully empty. And the upkeep-the dusting, the lawn cutting, the sidewalk shoveling-isn't getting easier. Then there are the expenses-not the mortgage (chances are, that's paid off by now), but taxes and insurance and utilities. That stuff's not getting any cheaper, either.

When thoughts like this start popping into your head, it's time to think about moving into a smaller place. Emotionally, it could be one of the hardest choices you ever make. Economically, though, it could make a lot of sense, especially if you're having trouble paying for your retirement dreams.

"Downsizing a home is often a savings overlooked by many older Americans," says Brent Kessel, a certified financial planner and president of Abacus Wealth Management, a fee-only financial planning and asset management firm in Pacific Palisades, California. "Yet the cost differential between a large home and a smaller one can be enormous-sometimes in itself enough to secure a comfortable retirement." That's only true, however, if you proceed with caution.

No one keeps tabs on how many retirees downsize, but there is ample evidence that millions of older Americans could stand to cut their housing costs. According to U.S. Census data, the average American 65 and older spends just under one-fifth of his or her income on housing, but more than 3.5 million older Americans spend in excess of 40 percent. And countless others have a huge chunk of their personal worth tied up in real estate.

Meet the Kravitzes, Natalie, 64, and Reuben, 73. In 1973, the couple bought a 2,800 square-foot, five-bedroom home in Massapequa, New York, for $60,000. By 2001, with their three daughters long since moved out, the Kravitzes were ready to retire from their part-time jobs as college professors. They put their home up for sale. It fetched a cool $400,000. Because the law allows a couple to keep up to $500,000 in profits on the sale of their primary residence ($250,000 for an individual), they didn't have to pay a penny in taxes.

The couple then moved into a less palatial, but comfy 1,800-square foot, three-bedroom, $230,000 condominium in Allentown, Pennsylvania. They put the remaining

$170,000 into their retirement nest egg, where it immediately began producing interest and dividends. In addition, Reuben and Natalie now save about $4,000 in property taxes, $2,000 on insurance, and $3,000 on maintenance. "All told," says Natalie, "not too shabby a deal."

The Kravitzes were able to reap such a good deal because they were willing to move farther away from their hometown-and to a less expensive area-than most of their contemporaries are. Half of Americans 50 and older who move stay in the same county; 75 percent stay in the same state. That means, in many cases, they don't achieve the same cost-of-living savings as the Kravitzes did.

The choice to change homes involves more than money. For the Kravitzes, it meant moving out of an area that had changed over the years. "We were tired of the congestion. And we were tired of being the oldest ones on the block," says Reuben. More importantly, the move to Allentown brought Reuben and Natalie closer-within 15 minutes-of their middle daughter, Sharon Schubach, and her family. Schubach and her husband, Gregg, are radiologists with two young daughters. "Having Mom and Dad in town to help with the children has made life immeasurably easier," Sharon says. The Kravitzes' new home has plenty of romp-around room for their granddaughters.

Such moves don't always go so smoothly for downsizers, though. Some retirees sell the family home to be closer to grown children, only to find that family relations suffer-or the children move. If the strain gets to the point that returning to the old hometown seems like the only solution, what looked like a smart financial move can quickly turn into a disaster. It's critical, then, to have an honest talk with your kids and kids-in-law before making any move. Advises Kessel: "Ask them how receptive they are to having dinner together three nights a week. Gauge your expectations against theirs."

Some other things to keep in mind: Will your family's holiday routines be upset by a move? Can you accommodate kids and grandkids when they visit? Will you be overwhelmed by the sense of loss that can accompany clearing out of your longtime home?

Once you've sorted through all the emotional, psychological, and financial issues related to shedding your big house for a smaller home, here are some smart moves to make before actually deciding whether a change of addresses is in order.

Talk about your stuff. "I've had a number of clients who have downsized, and more often than not, space becomes an issue of contention," says Brent Kessel. "Often, one person is a pack rat, and the other is not. It isn't a big issue in the larger home, but when all that stuff gets moved into the smaller house, filling an entire bedroom or two, the non-pack rat can become awfully frustrated." Don't wait till you move to discuss which of your belongings can make the trip. If you must shed some things, discuss which family members, friends, or charities might enjoy them most.

Act your age. Consider the number of stairs to climb in any potential new home, your access to high-quality medical care, and how close you'll be to those you can call on for help. Discuss such needs with your real estate agent.

Check the furnace. Generally, the smaller the square footage, the less expensive to buy or rent, and also to maintain, heat, and cool. But not always. Different heating and cooling systems can carry vastly different costs. The Kravitzes, for example, are paying roughly the same to heat their new three-bedroom home as they were to heat their old five-bedroom home. That's because their new gas/forced-air system, they say, is less efficient than their old oil heating system. Scrutinize monthly utility bills of any house you're considering. Keep in mind that if you're building new, some technologies, like geothermal heat pumps and solar powered systems, offer opportunities for huge monthly savings that recur year after year. Visit the U.S. Department of Energy website for information.

Pick your spot. Sometimes, property and school taxes-not to mention real-estate prices themselves-can vary dramatically from one neighborhood to another. Local realtors can help you spot the best buys. "Moving just a few blocks, from one township or school district to another, can sometimes save you a bundle," says Rozanna Patane, CFP, and investment adviser based in York Harbor, Maine. (At this point, school quality probably doesn't affect you personally.) Local real estate agents should be familiar with local tax rates.

Check the costs. Move to Manhattan from Mississippi, and everything from the cost of a can of soda to a movie ticket will probably shock you. In Hawaii, you'll be stunned by astronomical food prices, but pleasantly surprised by the low cost of utilities. "Given the ideal climate, most homes don't even have heating or air-conditioning," says Bert Sperling, president of Sperling's Best Places, a company that rates the best places to live. For a listing of cost-of-living factors, as well as other considerations such as crime rates and climate, see Sperling's informative, free website, www.bestplaces.net.

Trim the tax bite. Just as property taxes vary by locale, so do sales, income and pension taxes. In parts of Alabama, for example, you'll pay an 11 percent sales tax. In Delaware or Oregon, none. Yet Oregon has a 9 percent income tax. Alaska has no sales or income tax-the state actualy pays you to live there (in 2002, all residents got a state check for $1,540.76). Sperling's website can help you here, too.

Expect the unexpected. Be ready for a few surprises. The Kravitzes not only saved a lot of cash by moving to a smaller, less costly home, they also found that life in eastern Pennsylvania-from groceries and movies to auto insurance and furniture-is cheaper than it was in suburban New York. And they discovered an appreciation for the slower pace of life. "When you're trying to change lanes here, people actually let you in rather than curse at you!" says Reuben.

QUIZ: Are you a good candidate for downsizing?
1. Are you still living in the house in which you raised a family?

2. One or more rooms are used only to store junk?
3. The house you are in seems to need constant repair?
4. The entire amount you spend on housing (including mortgage or rent, property taxes, insurance, utilities and maintenance) exceeds 35 percent of your income?
5. You sometimes feel that your possessions own you, rather than the other way around?
6. You stand to gain taxwise by moving? (This can be a very complicated formula that must take into account property, income and sales taxes, along with any special treatment given by your state to pension or other retirement income. Talk to your accountant.)
7. You have a large yard, but haven't stepped foot in it since the Reagan Administration?
8. You live in an area with a general cost-of-living above the national average?
9. The stairs in your home are getting difficult to climb?
10. You yearn to be closer to family or friends?
11. You hate snow and you live within a stone's throw of the Canadian border?

If you answered "yes" to three or more, you are a good candidate. If you answered "yes" to five or more, you are an excellent candidate.

Where to Stash the Cash
Congratulations! You put the old house up for sale, and you made a bundle. You now have some important questions to ask and decisions to make. For guidance, we turned to Zvi Bodie, professor of finance and economics at Boston University, and co-author of *Worry-Free Investing: A Safe Approach to Achieving Your Lifetime Financial Goals*.

Q. Do I rent or buy? If you have someone to leave a home to, then you're probably better off buying a house. If you don't, strongly consider renting. Then you can take your profits and by investing them wisely, create your own private `social security' fund.

Q. Where do I invest? For many retirees, I would recommend an immediate annuity. An immediate annuity is a contract with an insurance company. You give them your cash. They send you a monthly check, starting immediately, for the rest of your life. Unfortunately, many annuities charge outrageously high fees. You can avoid those high fees by going to www.annuitynet.com, and buying direct over the Internet. I especially like the "single-premium immediate annuities" available online from Berkshire Hathaway (800-786-6426).

Q. What if I decide to buy another house? Do I pay cash, or take out a mortgage and put my money into an annuity or some other investment? It's a simple equation, really. If safe investments (Treasury Bills or CDs) are paying a higher interest rate than you would pay on a mortgage, then take out a mortgage and invest the cash. Otherwise, I recommend foregoing the mortgage and buying the house outright. Those in the higher income brackets, because they can deduct their mortgage interest from their taxes, need to input those anticipated savings into the equation.