



6 Questions to Ask Before Relocating in Retirement

By John F. Wasik | 06-07-15 | 06:00 AM |

There's more to relocating in retirement than picking a warm spot and enjoying the future days of leisure. Before making your decision, you'll need to take into account all aspects of your financial life, ranging from your monthly income to your estate plan. There are myriad questions to ask before relocating in retirement; how you answer them is the key to a successful relocation.

Here are some key questions to answer:

Should I downsize?

This is a natural first question when you move. Will you need a five-bedroom, suburban-style home? Or will a smaller home, condo, townhouse, or apartment work for you? Much of this decision depends upon how many visitors you plan to have and how often. If you're moving far away from family and you're asking children and grandchildren to make long trips, then you may not expect many visits.

Also consider that if you sell your home and buy a less-expensive home, you will probably be able to add the difference (minus commissions, closing fees, and other expenses) to your retirement kitty. Downsizing may be a sound financial move if you're looking to bolster your retirement income.

What's the cost of living in my desired location?

On the surface, nearly everyone in the Northeast or Midwest can benefit from moving to lower-cost Sunbelt states. Property and state income taxes are typically much lower, and you can often buy much more home for the money. Where you have to be careful is considering the total cost of living, which goes beyond taxes and includes expenses such as health care, food, and transportation.

City-Data.com is a good source for local consumer price information. For example, Alameda County in Northern California is 32% more expensive (on average) than Lake County, Florida, which is slightly lower than average. While real estate prices in popular "glamor" cities like San Francisco, New York, and Los Angeles are usually higher than third-tier cities or college towns, it's your total outlay that counts. You may be able to live in a smaller space in a big city--and save money on downsizing and transportation. Look at expenses holistically.

How will relocating impact my cash flow in retirement?

Keep in mind that it's what you keep after taxes and inflation that counts. The low-hanging cost savings of relocation are typically housing costs, but there are many other considerations.

Continued on page 2

Let's start with state income tax rates. There are a handful of states that don't levy income tax: Alaska, Florida, Nevada, South Dakota, Texas, and Wyoming. Yet, if you scrutinize the tax practices of other states, you'll find variations. The Federation of Tax Administrators provides a handy table, detailing the nitty gritty of each state's income tax practices. New Hampshire only levies a 5% tax on dividends and income. Tennessee has a 6% tax on dividends and interest. Things get even more complicated with retirement income; some states tax it while others don't. The Retirement Living Information Center contains useful tax-related information on this topic.

To understand the total impact relocating will have on your aftertax cash flow in each place you're considering, work with your financial advisor or tax specialist. (You can find fee-based advisors at the National Association of Personal Financial Advisors' website and planners with tax specialties by using AICPA's CPA/PFS Credential Holder Directory.) According to Scott Bishop, a certified financial planner with STA Wealth Management in Houston, "I look at relocations on a case-by-case basis when a client wants to move." Bishop says you also have to consider local/state sales taxes, possible property tax exemptions for retirees, and how much income you will need to live on. Also ask your advisor if your tax situation will change when you need to withdraw required minimum distributions from your individual retirement accounts (IRAs), Bishop adds.

Will there be estate-planning concerns?

Relocating and establishing residency in a new state involves a new set of laws. Talk with your estate-planning attorney before you make a relocation decision to see if your estate would be subject to higher taxes and/or greater restrictions as a result of your move. Other questions to work through include the following: Does the state you're interested in levy an inheritance tax? If so, will you be exempted from it? How will the state value your assets? Will your surviving spouse be shielded from taxes? If you don't have an estate-planning attorney, you can find one at the National Academy of Elder Law Attorneys' website.

How will relocating impact my portfolio?

Sometimes, your dream relocation could involve moving to a more expensive locale, which could mean you may have to withdraw more from your retirement portfolio to cover high monthly expenses. In this case, you might need to reposition your portfolio to generate more income with less risk. Conversely, relocating may result in you being able to add dollars to your retirement portfolio. Either is a good reason to work closely with an advisor to fully understand the portfolio implications to your decision.

Will relocating improve my quality of life?

Once you get through the exhausting details outlined above, you're on to your personal bottom line: Will you be able to maintain or enhance your quality of life if you relocate? Will adequate health-care resources, cultural venues, transportation, and other amenities be available to meet the needs of your lifestyle? Will you be happy living farther away from friends and family? These may be the toughest questions of all.

Continued on page 3

Ultimately, Bishop says the decision to relocate comes down to whether you can afford it and whether it will make you happier. "Don't change strictly for financial reasons," he says.

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