Wealth Matters Newsletter

November 2019

Downsizing Before Retirement

For those whom retirement is a long way off, it can represent a never-ending vacation, a time free of work and full of play. For others who are closer to retiring, their next chapter may represent an exciting season filled with new and meaningful contributions. Whatever your retirement plans may be, shrinking your domestic footprint may be an important aspect to consider, and you may be surprised why it matters. In this article, we'll explore some reasons to downsize, and some smart strategies to consider that can help make sure your retired life is everything you're hoping for.

MANY RETIREES CONTINUE TO LIVE IN TOO-LARGE HOMES, DESPITE NO LONGER NEEDING THE SPACE, SIMPLY BECAUSE IT'S HARD TO LET GO.

Home Is Where the Heart Is

When you think of your home, what do you think of first? The sound of little feet racing from room to room? The comfort of a home-cooked meal shared around the family dinner table? In every phase of life, the emotional memories we attach to our most meaningful spaces and places can be powerful.

Sometimes those memories are even strong enough to keep us in a place longer than we might stay otherwise. Many retirees continue to live in too- large homes, despite no longer needing the space, simply because it's hard to let go.

Downsizing in square feet before retirement has huge benefits, both financially and mentally. If you choose to go with a more modest home, the smaller living space might save you thousands of dollars a year in taxes, utility costs, and insurance costs, not to mention the savings in your personal energy. However, you can still find luxury with a smaller size home. Whether you go more modest or just opt for less space, the upkeep required on a larger home can also take a mental toll over time, so a change in size can help fix that issue.

Downsizing? More Like "Rightsizing"

While you're working or raising a family, owning a home that's large enough to accommodate your needs comes with innumerable benefits. However, many of those benefits become burdens after retirement. Still, it's hard for some to think about shrinking their domestic footprint.

It can be helpful to think of downsizing as "rightsizing," instead. The end result is typically the same, but conceptually, this can help transform what may feel like a limitation into a positive, lifestyle-affirming strategy. Moving to a home that's the right size for your retired lifestyle can result in a lower mortgage payment, lower utilities, lower property insurance, and lower overall stress.

After you've put in the effort to prepare for an enjoyable retirement, rightsizing your home for your needs can

help you truly maximize the positive impact of all your hard work.

Smaller Doesn't Always Mean Cheaper
Depending on what stage of life you find yourself, it may have been a while since you were in the market for a smaller home.

Interestingly, the national median price for condominiums—which are typically smaller in square footage than standalone homes—is now higher than the median price for single-family houses. However, this needn't be a barrier to lowering your expenses, if that is one of your goals. You might just need to do a little research before settling on a retirement-friendly home.

Even if you've been a homeowner for a while, there are a couple downsizing guidelines to keep in mind. Consider your budget. Where will a mortgage fit in your retirement budget? Are you trying to lower your costs so you can travel more, either to bucket list places or to visit your children and grandchildren more often? If this is the case, you may be heavily weighing the cost of a mortgage. One simple trick to gauge what's affordable for you is to check out what the payments would be on a 15-year mortgage. If the scheduled monthly payments on a 15-year mortgage makes you a little uncomfortable, you may want to lower the price range you're looking in.

To find the best mortgage structure for you, consider your income sources and your time horizon. Structure your payment schedule in a way that is designed to work best for you, and don't hesitate to reassess your home regularly to ensure it continues to meet your needs.

If you choose to purchase outright instead of opting for another mortgage, consider how the lump sum payment will impact your future cash flow. Are you comfortable making that investment at this time?

Needs Vs. Wants: That Old Chestnut
In a world where we'd like to think we can have it all, it's never fun separating "wants" from "needs." But when it comes to creating your retirement strategy, it helps to remember that the line between necessity and luxury has shifted over time. These days, people tend to categorize as necessities many things that their parents either never heard of or lived without.

Your idea of necessities and luxuries is highly personal and will most likely be different from those of your friends or neighbors. What one person considers a necessity may be a luxury for another. Even still, as you make these distinctions for yourself, it's wise to remember that each item or activity one pursues has two costs: the actual cost in dollars and the opportunity cost, or what the money may have earned elsewhere, given the opportunity. By no means should you forgo all luxuries in retirement, simply strive for balance as you carefully weigh your approach.

How Much Is Your Energy Worth?
Rightsizing your life also comes with psychological benefits, as less domestic upkeep can be quite mentally freeing. Cleaning a larger house, keeping up with repairs, and overseeing yard work all require hours of valuable mental and physical energy each week. With less "stuff" to worry about, you'll have more room to pursue what really matters to you.

It may be helpful to think of your energy like an asset. Assuming you have a finite amount of energy, where would you like to invest that energy to see the greatest return on your investment?

Will you dedicate it to social activities, family visits, or finally writing that novel? For many, retirement is the first chance they have had in decades to dedicate themselves seriously to cultivating a favorite hobby or skill.

Retirement is also a perfect time to reconnect with old friends or further strengthen existing relationships with loved ones. With the daily grind out of the way, you may find yourself reaching out to former classmates or

acquaintances you haven't spoken to in years.

Make It Easy on Yourself
Your retirement should center around enjoying a hard-earned lifestyle you love, not maintaining a living situation that no longer suits your needs and drains your finances as well as your energy.

By preparing now, you can begin working toward a rightsized retirement that's everything you want it to be–and then some.

Preparing for Extended Care

Health insurance and health care spending are popular topics of conversation among Americans. Most households are eager to maintain the quality of the coverage they enjoy well into their retirement years. But preparing for extended care requires consideration and thoughtful preparation.

An Approach for Every Person
Whether you are just beginning your retirement strategy or are nearing retirement, it's vital to incorporate health care into the equation. You may want to consider obtaining a particular insurance policy that specifically covers you in the event that you need extra care. Pre-existing conditions may disqualify you from purchasing such coverage, so it's wise to think about it early. It's not necessarily a fun topic, but the advantages are clear: an extended-care policy can help protect your nest egg, while also giving you more choices about where and how you receive the care you may need in the future.

What Is Extended Care?
Extended care is the need for specialized care outside the parameters covered by ordinary health insurance. While sometimes it just means a longer hospital stay, extended care encompasses a wide array of scenarios that may arise. For example, an Extended Care Facility (ECF) is a health care establishment with a more specialized focus. A residency at an ECF may be necessary for patients who are rehabilitating from a severe injury, fighting a chronic illness, or otherwise in need of care that an ordinary hospital may not provide.

Consider Your Options
Many "self-insure" by default, simply because they haven't made other arrangements. Those who self-insure may depend on their personal savings and investments to fund any needs. Another approach is to consider purchasing extended-care insurance, which can cover all levels of assistance from custodial care to in-home helpers.

Often, family and friends provide extended care for a season. However, this can be a burden on loved ones over time, and the need for assistance tends to increase with age. Choosing to purchase extended-care insurance can be a way of protecting your loved ones while also making sure you'll receive the level of care you require.

Extended Care, Extended Coverage
The good news is that there are ways to prepare for the event that you or your loved ones require extended care. These include purchasing a specific insurance policy and establishing a Health Savings Account (HSA), which we'll discuss later in this article.

In addition to ECF care, the scope of extended-care coverage can include home care and other specialized services such as visits with health care professionals, emergency alert devices, transportation, housekeeping, meals, and more.

It's essential to determine whether the insurance you receive through your employer (or the coverage you've purchased) is designed to cover extended care. In most cases, Medicare does not, as it falls outside their definition of "medical care."

Crucial Questions to Consider
What is the daily, weekly, and/or monthly benefit amount? Policies often pay benefits by the day, week, or month. You may want to evaluate what extended-care facilities in your area of the country are charging before committing to a policy.

What is the maximum benefit amount? Many policies limit the total benefit they'll pay over the life of the contract. Some state the limit in years; others, in total dollar amount. This is an important question to consider.

What types of facilities are covered? Extended-care policies can cover an array of options, including:

- Nursing home care
- Home health care
- Respite care
- Hospice care
- Assisted living facilities
- Other community facilities

Many extended-care policies cover some combination of these. Be sure to look into what facilities are available to you when you're considering a policy.

What is the elimination period? Benefits don't necessarily start upon entering extended care. Most have an elimination period, a kind of "blackout date" period during which the insured is responsible for the cost of care. In many policies, elimination periods can range from zero to 100 days after nursing home entry or disability.

Does the policy offer inflation protection? Adding inflation protection to a policy may increase its cost, but it could be important if extended care services could potentially increase in price over time.

HSA: A Special Way to Pay
HSAs have emerged as another solution to extended-care needs. An HSA isn't insurance, but it does provide a tax-advantaged savings account, to which you, and potentially, your employer, can make contributions over time. You can use these funds to pay for most medical expenses, including prescription drugs, dental care, and vision care. You can look into this choice right away, to take advantage of savings over time.

An HSA works a bit like your workplace retirement account. Your employer can make contributions alongside you. However, the money that you contribute comes from your pre-tax income and can be invested for you over time, so it may grow as your contributions accumulate.

Note, not everyone is eligible for an HSA. For example, you "must be covered under a qualified high-deductible health plan (HDHP) on the first day of a certain month." Other restrictions may also apply.

Once you reach age 65, you may be required to stop making contributions to an HSA. Remember, if you withdraw money from your HSA for a non-medical reason, that money becomes taxable income, and you face an additional 20% penalty. After age 65, you should be able to take money out without the 20% penalty, but it still becomes taxable income.

HSA Limits to Consider
There are some HSA rules and limitations to take into consideration. You're limited to a $3,500 contribution for 2019, if you are single; $7,000 if you have a spouse or family. Those limits jump by a $1,000 catch-up limit for each person in the household over age 55. Your employer can contribute, but the ceiling is cumulative between your contributions and theirs.

For example, let's say you're lucky enough to have your employer put a hypothetical $1,000 into your account in 2019; you may only contribute as much as the rest of your limit. If you go over that limit, you'll incur a 6% tax penalty, so it's smart to keep an eye on how much you're putting in.

We Are Here to Help

The sooner you begin to prepare for extended-care considerations, the better off you may be in the long run. Remember, you don't have to prepare on your own. If you have any questions, reach out and let's talk. As a fee-only financial planning firm, we do not sell any products, but we do discuss these needs with our clients to make sure their financial plan addresses covering these events and we make introductions to professionals who handles these needs when necessary. Together, we can build a strategy to help you face your future with confidence.

Sources Available Upon Request

Community Involvement

Mike and his Leadership Collier class visited the Harry Chapin Food Bank of Southwest Florida, Inc. and helped sort potatoes. This act will help serve those in the community who are food insecure. To learn more about the facility, visit https://harrychapinfoodbank.org/

Ryan spent time with fellow RayPec Sunrise Optimist Club members to clean up trash in the community. This is a recurring event the Club undertakes to keep the area clean and make it a great place to live. To learn more about the Optimist Club, visit https://www.raypecoptimistclub.org/.

Marc had the opportunity to participate in Head Start Awareness Month by reading to the kids at Growing Futures Early Education Center, where he currently serves as a Board Member. For information on how to get involved, visit https://www.growingfutureseec.org/how-to-help/.

12980 Foster Street, Suite 160 Overland Park, Kansas 66213 | Phone: 913.814.3800 | Fax: 877.808.6353 | www.searcyfinancial.com