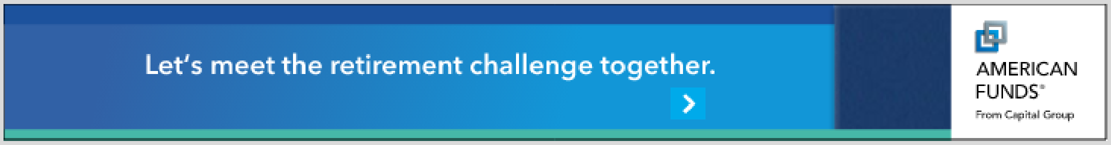


Financial Planning

PRACTICE

Help Clients Avoid Pitfalls of a Retirement Paradise

By **Donald Jay Korn**
October 1, 2015

With millions of baby boomers in their 50s and 60s, financial planners are seeing a surge of clients retire. For many of these seniors, once they are no longer tied to a workplace, thoughts immediately turn to changing their place of residence. This may be a good idea or it may not; the decision is often not as clear-cut as many couples assume.

“Relocating is exciting, but often more daunting than people anticipate,” says Jennifer Cray, partner at Investor's Capital Management in Menlo Park, Calif. Providing a realistic view of what relocation will mean financially will help lead to well-informed decisions.

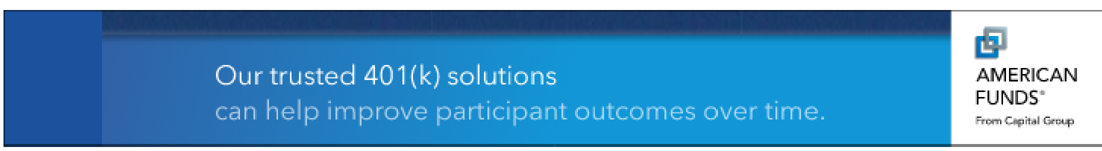
TOTAL TAXES

Moving to a state with low income tax or none at all may seem appealing to many seniors, but determining the full range of a state's costs and the details of how it taxes retirees can sometimes be surprising.

Private pensions and even IRA distributions enjoy shelter in certain states, including New York. Other states may exempt other income. “California does not tax Social Security income from the United States, including survivor's benefits and disability benefits,” Cray says.

Nick Hughes, a wealth advisor with Franklin Wealth Management in Hixson, Tenn., notes that “some states exempt some government and military pensions from state income taxes.” Thus, retirees in some supposedly high-tax states may owe relatively little in state income tax, depending on their sources of cash flow.

“Relocating out of a high-tax state like California for tax reasons alone doesn't strike me as particularly powerful,” Cray says. “If the income tax is lower, the property tax is likely to be higher.”



a to a more rural setting. “If a

nilies are affected by the federal estate tax now that the exemption is up to $5.43 million,” Hughes says, “but many more are affected by state estate taxes. I recommend that clients calculate their estate-tax liability before they move.”

Jeffrey Waters, managing member of OFC Financial Planning in Short Hills, N.J., says his state's estate-tax exemption is $675,000, far below the federal allowance. “For even a moderate-size estate, the taxes can be substantial,” he says.

HOUSE HUNTING

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Taxes might be a major financial concern in relocation decisions, but housing can be even more of an issue. “The cost of housing, including rent, utilities, property taxes, etc., needs to be fully understood prior to retiring and relocating,” says Robert Warner, executive vice president and managing director for the private client group at Cleary Gull, an investment advisory firm in Milwaukee.

Cray often tells her clients that deciding to move out of the San Francisco Bay Area should not be a casual decision. “In the Bay Area, once you sell your home, it’s almost financially impossible to move back here if you change your mind,” she says. “Relocation is not only a big decision, it’s often an irrevocable choice.”

As Hughes puts it, “Housing affordability in the desired destination often can be the make-or-break factor for relocation. Will clients need to sell their current residence before moving or liquidate investments in order to purchase the new home? What will be the tax implications of both scenarios? These things should be discussed with a qualified tax or financial professional.”

Many clients may favor moving from a high-cost to a lower-cost housing market, pocketing the profit to help finance their retirement. The advantages might come with a catch, though.

“One of our clients found some amazing housing bargains in Florida,” says Herb Daroff, an estate and business planner at Boston-based Baystate Financial. “However, he discovered he was buying into a development that was only 25% owner-occupied, which made it difficult to get a mortgage. Additionally, all of the development’s common expenses had to be shared by relatively few owners. The purchase price was attractive, but the carrying costs were very high.”

THE COST OF CARE

Housing and health care finances may be combined as a factor in relocation decisions. “The cost of assisted living, in-home care and skilled nursing facilities should be considered,” Cray says, “as well as the availability. Are there waiting lists? Does the area have enough of the types of facilities a client prefers? Are there facilities that can accommodate patients with dementia?”

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