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When Should Retirees Downsize Homes?

If You're Going to Do It, Sooner is Better Than Later

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For most people, their house is their biggest asset. It's also their biggest expense. But when it comes to retirement planning, a house often falls to the bottom of the list involving changes in later life.

There are plenty of reasons for that inertia. Emotionally, it's hard to let go of a home filled with memories. Moving is a hassle, and downsizing to a smaller home isn't always the cash bonanza some might expect. As a result, many wait until well into retirement before moving to a smaller house or apartment.

But for many retirees, it can pay to downsize sooner rather than later.

Audio

Tom Lauricella and Dan Loney look at downsizing in retirement

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The financial benefits may not seem huge at first, but over time they can make a meaningful difference in extending the life of a nest egg. As retirees age, there are lifestyle issues to consider, such as being in a community with other older adults. And finally, making a move before one spouse dies can help ensure that the surviving spouse, or the couple's

adult children, won't have to contend with emptying and selling a big house.

When it comes to downsizing, "if it makes sense, don't wait," says Steven Sass, an associate director at the Boston College Center for Retirement Research.

Some of the reluctance stems from the idea that trading a house with a paid-off mortgage for a rental or a condominium with maintenance or association fees will lead to higher monthly costs.

That can be a mirage, says Lawrence Glazer, a financial planner at Mayflower Advisors in Boston. "In a home, the expenses are hidden," he says. "It's maintenance, a roof, a boiler, heating and landscaping."

Often there's a desire to hold on to a house where children were raised so that they—and the grandchildren—can come back and visit. Mr. Glazer urges clients to think twice about the decision.

"Rather than clinging on to a three-bedroom and paying for the maintenance and heating, it's cheaper to put [relatives] up in a hotel room," he says. Plus, he says, most adults don't really want to go back to their parents' house "and stay in the room with their old posters on the wall."

Trading for the more visible costs of a rental or condo can help with planning, notes David Schwartz, chief executive at advisory firm FCE Group in Great Neck, N.Y. "You know what your fixed costs are going to be," he says.

It doesn't take a major downsizing to reduce costs, either. For many homeowners, property taxes have become a growing burden in recent years. "All it may take is moving out of a good school district and into a mediocre one, and sometimes taxes will drop," says Mr. Glazer.

Downsizing can have a big impact on a retiree's financial plan. Even with a mortgage that has been paid off, housing often accounts for 30% of retirement expenses, says Mr. Sass at Boston College.

Mr. Sass does the math for a move from a house worth \$250,000 to one costing \$150,000. Factoring out the expenses of moving—roughly 10% of the selling price—that leaves \$75,000 from the purchase of the new residence that can be added to a retiree's savings.

That \$75,000, he figures, could enable a retiree to withdraw an extra \$3,250 from savings every year. On top of that, the retiree would have savings from lower expenses on the house, which he says could easily be an additional \$3,000 a year. "That's \$6,250 a year in extra income," Mr. Sass says.

For those trying to assess the financial benefit of downsizing, the Boston College Retirement Center has a new online tool. It's available at squaredaway.bc.edu and can be found on the site by clicking the "Housing" link at the bottom of the page.

More than just money is at stake, notes FCE's Mr. Schwartz. He sees many clients who move from suburban houses to apartment complexes with amenities on site, such as shopping and restaurants, or even into New York City, where they can have a doorman and an active cultural life.

Mr. Schwartz says people often fail to appreciate how the aging process makes it harder to move. As just about anyone who has moved knows, the process is physically and mentally exhausting, even at a young age. It's that much more daunting for older adults.

As retirees age, illness or death can suddenly thrust a move upon them, creating stress for the whole family. "Once you're over 80, more things happen where you don't have 100% control, and it's harder for those people to move," Mr. Schwartz says. "And once a spouse dies, then it's even harder to move" from a home that a wife and husband shared for decades.

In those situations, he says, the responsibility for helping take care of a house, and ultimately selling it, often falls to the children.

Mr. Schwartz, however, warns clients against downsizing to a smaller house and then buying a second home elsewhere. "With a second house, everything is doubled," he says. "And at a certain age ... it becomes mentally costly to maintain multiple residences."

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