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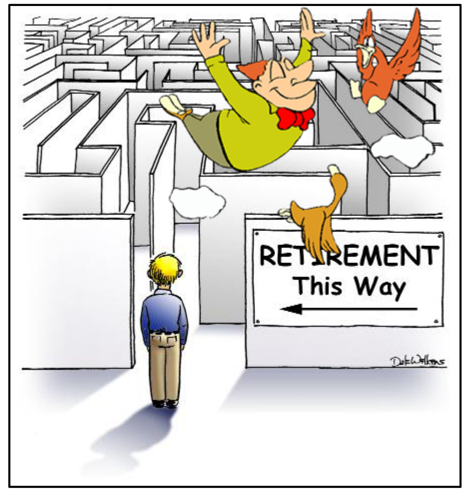
Retiring Elsewhere? Develop a Flight Plan

Navigating the Retirement Maze



"My parents didn't want to move to Florida, but they turned sixty, and that's the law."
– *Jerry Seinfeld, comedian, actor, writer (1954 -)*

As retirement nears and becomes an approaching reality instead of a distant oasis across the desert of workdays, one begins to ponder the possibilities of what to do with all of that extra time. One option, as you are no longer anchored in place by children or a job, is relocation. After years of dealing with New England winters, the thought of living in a place where a snow blower is no longer a necessity can be quite appealing. Let them call you a "Snow Bird." Goodbye ice dams, hello SPF 40.

For some entering retirement, though, it isn't the thought of temperate winters that may be motivating a move. It could be the result of a retirement savings shortfall caused by prolonged periods of unemployment, health problems, family crises, or the housing bust. The scenario going forward is one where outliving one's life savings is a possibility.

An obvious way to stretch your next egg is to spend less. However, the biggest expense reduction impact may not be what you spend, but where you spend it. The cost of living varies greatly across different geographies in the US, and even more so for some non-US destinations. So investigating alternative retirement locations may be more than a matter of seeking sun and fun, but also improved economic stability.

Go (Mid)West, Old Man

Housing, taxes, and heath care typically top the list of expenses. So it makes sense to examine these costs for each prospective retirement locale to get a sense of the potential cost differential from your present home as a basis for ranking your choices. Numerous publications regularly rate cities for retirement quality of life. Factor in relative retirement costs, and you have the makings of an informed relocation decision.

Data compiled by Missouri Economic Research shows that ten of the least expensive states by overall living expenses are located in the Midwest, with the Southwest running a close second. Although Iowa and Nebraska may not seem like your ideal retirement meccas, they do include cities and communities with plenty of lifestyle activities. There are also many Sunbelt states – Arizona, New Mexico, North Carolina, and Tennessee, to name a few – that have lower living costs than most of the Northeast, and offer both favorable climates and communities geared towards migrating seniors.

Housing costs tend to dominate living expenses. So selling your high-priced home in New England and moving to an area with lower housing costs can achieving the dual advantages of downsizing and lower overall housing prices. It could also free up capital to add to your investment assets.

"Taxachusetts" no longer

Taxes factor into your overall expenses, primarily sales, property, and income tax. Massachusetts long ago ceded the title of highest tax state to many others that today have higher maximum tax rates. The Tax Foundation Web site is a good place to find out the tax burden of potential destinations. Thirteen states also tax Social Security benefits, so consider that as well.

Some states are actually trying to attract retirees through tax incentives for seniors. For example, Georgia exempts up to $65,000 of income from state taxes for those age 65 or older. It also has no estate tax, and an exceptionally straightforward probate process for estates.

Kiplinger.com devotes a section of its Web site to taxes on retirees by state. It rates states from most retiree tax-friendly (11 states) to least tax-friendly (9 states). As taxes can consume a significant portion of your retirement income, include this in your retirement destination pros and cons.

Health care costs

With age comes increasing medical issues, and their associated costs. While Medicare and its supplemental policies, Medigap and Medicare Advantage, will cover some of your costs, you're responsible for the balance. Medical costs vary by region, and as Medicare does not adjust reimbursement copays by geography, situating yourself in lower medical cost areas can result in substantial savings. This is particularly true when considering the costs associated with long term care, which can vary by a factor of over two between regions. Genworth does an annual survey on long term care costs nationwide, and has a Web site for comparing those costs in different areas of the country. Even if you have a long term care insurance policy, your coverage dollars will go further in areas with lower health care costs.

Death and Taxes

While not exactly a cost of living, some states have rather onerous costs of dying, better known as estate and inheritance taxes. This is an issue if you are concerned about what gets left to your heirs. With the U.S government having raised the threshold on the Federal "death tax" to $5.45 million adjusted annually for inflation, plus portability of unused portions of the exemption to the surviving spouse, this only become a concern for the very wealthy. However, fifteen states have graduated estate taxes up to 20 percent, and six have inheritance taxes (paid by the inheritor), many with lower trigger thresholds and no portability. While this might only be a secondary consideration compared to outliving your money, the value of your house alone could exceed your state's estate tax threshold, so factor this in to your relocation calculations.

Just like the adage concerning real estate, relative retirement costs are about location, location, and location. Do your homework in advance of swapping your home state for another, and you could end up with a retirement that is more to your liking and consistent with your savings.

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