SOCIETY OF ACTUARIES

Where to Live in Retirement?

MANAGING RETIREMENT DECISIONS SERIES

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HOUSING IS ONE OF THE LARGEST expenses people have in retirement. It is also a very emotional subject, because many older people resist even the thought of moving from long-cherished homes. This Decision Brief explores these and many other housing considerations people may face along the retirement road.

Many retirees can "age in place." Others find their homes have become unaffordable, too difficult to maintain, or unsuited to increasing physical or cognitive limitations. Of those who must move, many prefer to remain in the communities they know, while others, often after a great deal of planning, opt to move elsewhere—to live in a warmer climate, to be near their kids, to experience something new or to address other goals and purposes.

All retirees, however, will likely want to anticipate the possibility that an initial decision about where to live may have to be revisited later.

Fortunately, unless there is a medical emergency or major financial setback, housing decisions can generally be made in a leisurely fashion, after thoroughly examining various options and their advantages and disadvantages.

It is best to think about retirement housing well before the need to move. After all, it can take a long time to sell a house, and values can go down as well as up. In addition, housing decisions, once acted upon, are likely to be difficult and costly to change.

What-ifs can help: Discussions about housing can be awkward and difficult, but "what if" discussions with a financial planner or adult children may help to establish a rational planning process.

To Go or to Stay

Where to live in retirement can be a lifestyle decision, a financial decision or a health care decision. Even people who can remain in their long-time homes have a lot of decisions to make. Here are some key considerations.

Expenses: It may help to start the pre-retirement analysis by estimating and projecting housing expenses. Many people will need to figure out whether staying in their current home is affordable. They must factor in not only monthly housing expenses but also the cost of maintaining a home. Furnaces need replacement; roofs need repair; houses need repainting; and so on.

Some experts recommend budgeting a percentage of the home's value, such as 1 percent, for repairs. The idea is to invest this amount in a savings account and allow the funds to build up for years. This account will provide a source of money to draw upon in case a larger priced maintenance occurs.

A word of caution: Because some expenses do not come at regular intervals, they are easy to forget when planning. Be sure to include adequate amounts for repairs and for increases in taxes when determining the affordability of a house.

Dwellings often must be changed to accommodate people with physical limitations. This may be an important expense consideration, because some retrofitting projects can be costly and some people may need to tap into home equity to help pay for this or other expenses. On the other hand, even expensive modifications may cost less than alternative arrangements, and some adaptations do not carry a big price tag. New technologies are also making it easier for people to remain in their own homes.

Other expense-related considerations include:

- Is the home appropriately sized for a retirement lifestyle and reduced income? On-the-go retirees might prefer something smaller, less expensive or requiring less maintenance.
- Is the owner able to maintain, or able to find and pay for help to maintain a home? Washing windows, yard work and shoveling snow pose greater challenges as times goes on.
- What additional expenses will need to be budgeted if physical or cognitive abilities deteriorate?
- Have those who are condominium owners planned for special assessments?

Fortunately, even retirees on a tight budget have options. These may include renting out a spare bedroom, downsizing to a less expensive home, tapping equity in the house, obtaining a reverse mortgage (discussed below), moving to some form of shared housing, or relocating to a region with a lower cost of living.

Lifestyle: Many retirees opt for retirement communities that cater to active lifestyles, or for cities or college communities that offer cultural and educational activities. Others move to areas where they have vacationed for years or where their children live, or they move abroad in search of new experiences or a less expensive place to live.

Age-friendly communities: The World Health Organization has a global initiative to help communities become more age friendly. The organization defines an age-friendly practice as one that "*typically aims to achieve one or more of the following: recognize older people's capabilities, anticipate and respond to ageing-related needs and preferences in an equitable way, promote older people's inclusion and contribution to community life, respect older people's decisions and choices, and protect the most vulnerable older people, including those with chronic conditions and disabilities and those at risk of social isolation.*" Individuals choosing a place to live may wish to look at these issues as well as issues connected to their current lifestyle and family relation.

Housing changes need not require moving a long distance away. Retirees may prefer to move within their own communities—to downsize, get closer to public transportation or share housing, for example.

Regardless of location, the decision will need to address the specific needs of family members. Considerations include:

- Is public transportation available? If not, explore how to get around if driving is no longer possible.
- Is there space to accommodate overnight guests and/or caretakers?
- Is there space to accommodate hobbies?
- How do the adult children feel about their parents moving nearby (or far away, if that is the case)?
- Does the new community have activities that will engage the parents while their adult children are busy elsewhere?
- What will happen if the son or daughter moves away or suffers a personal calamity that prohibits frequent visits?

For couples, it is also worth anticipating what things will be like after the first death occurs and whether a contemplated housing change would be workable in that case.

Whether to buy or rent: Although owning a home offers many people peace of mind, renting can be liberating, especially for someone who wants to be able to get up and go easily. It can also be easier to move from a rental home if, for whatever reason, another move becomes necessary or desirable.

Selling the current home: A big question for many is whether to sell the current home. Although some retirees maintain two homes, at least for part of retirement, selling a home may be the only way to afford a new one. To remove uncertainty about the timing and sales price of their homes, some people may choose to sell their home first and move into rental property for a period before purchasing another home or moving away.

It's worth noting that selling the home limits the options if relocation does not work out. For that reason, retirees might consider putting off selling until they have spent at least a year (all four seasons) in the new location, even if they have been vacationing there for years.

Personal help: Whether buying or renting, retirees will need to assess their requirements for personal help. A good many will live independently for much of retirement, whether in houses, apartments, condominiums or mobile homes. As they age, however, they may need increasing help with cleaning, shopping or getting to the doctor and otherwise coping with ill health, physical limitations or death of a spouse. This will affect the housing choice.

In some communities, volunteers have been organized into neighborhood "villages" that provide services to seniors. These villages also facilitate access to other services that help the elderly remain in their homes longer. The programs may require a membership fee or depend on donations, and they may vary in costs and offerings. It remains to be seen how much help will be provided by volunteers over time and to what extent the villages will be able to facilitate it. In the meantime, retirees who need regular help in the home are most likely to receive it from family members or paid providers (e.g. home health aides).

Looking ahead: At some point, greater assistance may be needed, and a move to an assisted living facility or even a nursing home may be in order.

Housing communities: Builders today are constructing a variety of housing communities and facilities for the rapidly growing aged-60-plus population. Some are active retirement communities that may be "wired" for residents who work in retirement. Others combine health care, personal care, meals and other services. New arrangements will undoubtedly continue to emerge. See the box for examples of community options currently available in various locales.

Housing Communities to Consider

- *Active Adult Communities:* Age-restricted living environments that mix single-family homes, townhouses and/or apartments; many include clubhouses, tennis courts, and other facilities and activities.
- *Assisted Living Facilities:* Generally small apartments in buildings that provide help for people who need assistance but who still want to remain as independent as possible. These facilities offer personal care, support services, help with activities of daily living, prepared meals and social activities, as well as opportunities to make new friends.
- *Nursing Homes/Skilled Nursing Facilities:* Living arrangements that serve older adults who need nursing care, speech and physical therapy, supervision, medical monitoring and intervention.
- *Continuing Care Retirement Communities (CCRCs):* Living arrangements that offer a continuum of care as residents' health changes, along with social, recreational and cultural activities. Residents typically start with independent living and move as necessary to assisted living and on to a nursing home.
- *Other Alternatives:* The newest developments in housing for the elderly involve elder-centered communities designed to enhance quality of life by creating home-like settings, including pets and plants, and they also welcome visiting children. The Eden Alternative and the Green House Project have sought to transform nursing homes into more livable places.

Paying for Housing in Old Age

A major consideration is how to pay for housing in retirement. Here are some key factors to weigh.

Explore mortgage decisions: There are no universally accepted guidelines for whether to keep an existing mortgage or whether to use mortgage financing to buy a new home, but there are points worth considering.

For instance, keeping a mortgage might be a good option for those who lack sufficient assets to pay off a mortgage comfortably but have a regular assured source of income such as Social Security or a defined-benefit pension. Refinancing at a lower rate or switching from a variable rate to a fixed rate mortgage later could be a strategy that benefits such individuals.

It rarely makes sense to hold a mortgage if assets are sufficient to pay it off without depleting funds that may be needed for other expenses. In low-interest-rate environments, it is extremely unlikely that the mortgage borrower will be able to find safe investments with rates of return that more than offset the cost of the mortgage.

Some homeowners may think about withdrawing assets from qualified retirement plans such as 401(k)s or IRAs to pay off the mortgage. In such cases, the effect on the owner's taxes need to be considered.

A partial approach: Paying off the mortgage does not have to be an all-or-nothing decision. In some cases, paying down part of the mortgage might be wise even if it is not possible to pay off the entire balance. But it would not be prudent to pay off a mortgage if the result will be carrying outstanding balances on credit cards with much higher interest rates than mortgages.

If mortgage payments are draining the retirement portfolio, or otherwise affecting quality of life, and if the owner has equity in the home, it may be possible to replace a regular mortgage with a reverse mortgage. Reverse mortgages are less widely known than traditional mortgages, so the following section provides some of the key characteristics.

Access the equity in a home: The reverse mortgage is a special type of loan for homeowners aged 62 and older. The most commonly used reverse mortgage is insured by the Federal Housing Authority (FHA) and is known as the Home Equity Conversion Mortgage (HECM).

Secured by the home itself, these mortgages allow the homeowner to convert a portion of the equity in the home into cash. This cash can be paid to the homeowner as a lump sum, a growing line of credit, or monthly income. It requires no repayment until the last borrower dies, sells the home, moves or fails to meet the requirements in the mortgage to pay property taxes, maintain home insurance, and care for the property.

Obtaining a reverse mortgage requires careful decision making. In general, such mortgages are generally appropriate for those who plan to stay in their homes for the foreseeable future. As with any mortgage, the homeowner must continue to pay property taxes and maintain homeowner's insurance. Failing to do so could mean loss of the home.

Heads up: To acquire an FHA reverse mortgage, the homeowner must be counseled by an independent agency.

Older homeowners can find these mortgages useful in helping to meet a variety of financial needs. For example:

Reverse Mortgage Obligations

Today's FHA reverse mortgage (HECM) requires the homeowner to demonstrate willingness and capacity to meet homeowner obligations. A homeowner is unlikely to qualify for a reverse mortgage if unable to demonstrate that the mortgage terms are a sustainable solution.

With careful planning and use, expenses for setting up the reverse mortgage can be reduced substantially.

- Homeowners may want to use a reverse mortgage as a life-long interest-only loan. Here, the person or couple would make interest-only payments. The principal would be repaid one day when the home is sold. Using this strategy, a portion of the home equity is likely to be preserved to pass along to heirs.
- Homeowners could use a reverse mortgage to pay off an existing mortgage if the remaining loan balance on the existing mortgage is about 50 percent or less of the home's market value.
- Homeowners could use a reverse mortgage to finance a portion of the purchase price of another home rather than pay for the house entirely with cash.
- During economic downturns, homeowners could use a portion of their home equity, via the reverse mortgage, to pay for living expenses instead of liquidating investments.

Some people view reverse mortgages as a "last resort" type of solution to a financial need. That is how they were initially used. However, over the past three decades, the HECM has evolved so they can better meet the needs of today's retirees and be useful in many situations, as indicated above.

In addition, regulatory changes have made the reverse mortgage a much safer choice than it used to be. Any home equity remaining at end of life is passed along to heirs, and surviving spouses may remain in the home after the death of the first spouse.

Bias against holding debt during retirement prevents many from considering a reverse mortgage even when it could significantly improve peace of mind. Some think that they would be turning their home over to the lender; this is even though, just like any mortgage, the reverse mortgage borrower maintains title to the home.

Important to know: The reverse mortgage lien functions exactly like a traditional mortgage except that no monthly payments on the principal or interest are ever required. If for any reason the mortgage balance grows to exceed the value of the home, the homeowner and heirs are not liable for the difference. This potential outcome is insured by FHA, and in such a situation FHA would make up the difference for the lender. No deficiency judgement against a homeowner or heir would be issued.

Refinance the current mortgage: Some retirees choose to refinance their existing mortgages. This could take the form of an equity loan. Refinancing can free up a considerable amount of cash to put to good use—paying off a high-interest loan, starting a business or going back to school, for example. However, it may extend the payoff date, which could lead to financial hardship later in life.

As with most housing decisions at or in retirement, a decision to refinance a home needs careful study and a good understanding of the details. It is a real danger signal if homeowners are refinancing to get money for basic living expenses.

Consider long-term care insurance: Retirees and their families need to know that government programs such as Medicare generally do not pay for any senior housing arrangements except for a limited period in a skilled nursing home and then only under certain conditions.

However, long-term care insurance may help provide for flexibility in meeting future care needs, and owning such a policy may affect housing decisions. In addition to paying nursing home fees, some long-term care policies may make it possible to remain at home, for instance by paying the expenses of care providers (depending on the policy). Some contracts also pay costs associated with assisted living facilities or care at home.

The policies differ in options available, so buyers will want to compare offerings carefully, especially since each option changes the cost of the policy. Some long-term care insurance policies include provisions that increase benefit amounts. Others may offer various benefit period choices or differences in the elimination period. Some provide inflation protection, which can be critically important to a retiree's financial future.

Retirees may want to review their life insurance coverage to see whether they could tap value in such policies to help pay long-term care expenses. Also, many newer long-term care insurance policies are now sold as part of a life insurance or annuity arrangement.

Insurance considerations: Having adequate long-term care insurance may be one of the most important financial decisions a person can make to potentially remain able to stay at home or preserve home equity and other assets in old age.

Explore new housing options and financing: Buying a new home (house, condominium, mobile home) in retirement is much like buying one at any other time of life, although financing options today may be very different from years ago. Obtaining legal advice before contracting to buy a new home is always a good idea, but living arrangements targeted at the senior population may require even more scrutiny and legal expertise.

Caution: It is important to review the contract and understand the costs and services being provided, rather than relying only on the sales information in presentations and brochures.

Older people (or family members or others helping with a purchase) need to understand what they are paying for. If, for example, they are moving into an assisted living facility with various services, it is worthwhile to find out exactly what the fee includes and what expenses are considered extra. This helps avoid sticker shock.

If the plan is to purchase a home, it is important to assess the outlook for the resale market, too.

Assess various senior housing arrangements. These include, but are not limited to, continuing care retirement communities (CCRCs). Depending on structure, the CCRCs (and other community arrangements) may provide a variety of activities and services for older adults. Some options provide housing and support for life. Some communities may include prepaid health care.

Most CCRCs require a sizeable financial investment upfront as well as ongoing monthly fees. Some allow a choice of renting or purchasing housing in the CCRC or buying into the CCRC without owning anything, thus expanding the available options.

Moving into a CCRC can be just the right lifestyle decision, providing appropriate living facilities from early old age when little or no assistance is needed right through to end-of-life care. Thus, CCRCs are a type of long-term care insurance.

However, people interested in CCRCs will want to keep in mind that arrangements, financing, services and refunds (if things do not work out) vary among CCRCs. This applies to other forms of elder housing that may be available to the senior, as well.

Because communities of this kind vary and may involve multiple features and options, it is important to understand not only the benefits and services being purchased, but also the long-term financial stability of the community itself.

Caution is in order whenever there is a large upfront fee. Older persons who have

Senior Housing Questions

- Do regular fees cover three meals a day or fewer?
- Do aides help with bathing upon request or for some fixed number of times per week?
- How often is housekeeping provided?
- What has been the history of fee increases?

Potential Risk

CCRCs carry unique risks for residents. For instance, many require significant upfront payments, the value of which depends on performance of future services. Further, there is no foolproof way to ensure against the possibility of mismanagement, siphoning off funds, or outright fraud. It is worth considering these possible risks in light of the known risks of more traditional arrangements, such as care in the home or a traditional care facility.

sold their homes and/or relied on other assets to pay CCRC fees may have little or nothing left if, for whatever reason, they want to leave a CCRC, if the ongoing fees are unaffordable, or if (as sometimes happens), the CCRC becomes insolvent.

Refunds at CCRCs: Refund policies vary. In some cases, residents who leave a CCRC get back part of their initial investment; but in other cases, they do not. Even if they will ultimately get a refund, there may be a delay until the unit is reoccupied.

Research, Caution and Advice

In sum, senior housing options do exist. Deciding which to select requires research, caution and advice not only from an attorney but possibly also from an expert who can assess the financial health of the senior communities under consideration.

Careful analysis will help ensure that the option chosen is well-suited to the needs and interests of the individuals involved, and that retirees and their families know what to expect in terms of costs, care and other matters. Nothing is 100 percent risk-free, but developing a good understanding of the risks before making housing decisions will help older adults make a realistic assessment of their options.

Additional Resources

For the website entries, please go to the website and enter the name of the article or author into the search box.

- AARP. "Which Type of Housing is Best for You?" at www.AARP.org
- U.S. Department of Health and Human Services. "Housing Options for Older Adults: A Guide for Making Housing Decisions" and other housing resources at www.eldercare.gov
- Village to Village Network at http://www.vtvnetwork.org/content.aspx?page_id=0&club_id=691012
- LeadingAge.org. Aging services directory at http://www.leadingage.org/find-member
- MetLife Mature Market Institute. "Aging in Place 2.0: Rethinking Solutions to the Home Care Challenge" and "Housing for the 55+ Market: Trends and Insights on Boomers and Beyond" at www.metlife.com
- Society of Actuaries. Monograph on Housing in Retirement.
- Boston College Center for Retirement Research. "Should You Carry a Mortgage into Retirement?" and "Using Your House for Income in Retirement" at http://crr.bc.edu
- Consumer Financial Protection Bureau. "Considering A Reverse Mortgage" and other resources at www.consumerfinance.gov
- U.S. Department of Housing and Urban Development. "Frequently Asked Questions about HUD's Reverse Mortgages" and "HUD Reverse Mortgage Purchase Facts" and other resources at www.hud.gov
- U.S. Department of Health and Human Services website on Long Term Care at https://longtermcare.acl.gov/

The Society of Actuaries Post Retirement Needs and Risks committee has other Decision Briefs providing additional information on the major decisions encountered in retirement. All of the briefs can be located at: https://www.soa.org/research-reports/2012/research-managing-retirement-decisions/

The Society of Actuaries would like to acknowledge the work of its Committee on Post-Retirement Needs and Risks in producing this series.

The committee's mission is to initiate and coordinate the development of educational materials, continuing education programs and research related to risks and needs during the post retirement period. Individuals interested in learning more about the committee's activities are encouraged to contact the Society of Actuaries at 847-706-3500 for more information. Additional information and research reports may be found at http://www.soa.org.

DISCLAIMER

This Decision Brief is not intended to provide advice for specific individual situations and should not be construed as doing so. It is an information tool for general guidance. Individuals needing advice should seek the services of a qualified professional. Keep in mind that the tax code can change, the taxation of products and strategies vary, and individual tax needs and issues are unique. Consideration of tax issues is beyond the scope of this work.

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475 North Martingale Road
Suite 600
Schaumburg, IL 60173