

Downsizing Isn't All About Stuff: It Can Be a Smart Financial Move, Too

As people move into their 50s and 60s, priorities change. The hours spent on home improvements and the sheer time necessary to maintain a full-sized home seem to be a little more of a burden. As kids move on, there's all that unneeded space.

Men and women tend to turn on the gas in the last 15-20 years of their working lives to make sure their retirement savings will be adequate to their needs. That's why the idea of downsizing is a good one to start early. It's also a good time for a financial check-up as well.

A CERTIFIED FINANCIAL PLANNER™ professional may not be able to help you sort out what dishes and furniture to sell or give away, but he or she would make a good first stop in developing a complete downsizing strategy involving assets, investments, career and overall financial lifestyle planning. With life expectancies lengthening, many people 50-55 years of age could conceivably be at only the midpoint of their lives.

What is the chief advantage to downsizing? Handled correctly, it can save a lot of money. Selling a larger home – possibly one that still has a mortgage – in favor of a smaller house or condo that's completely paid off can save potentially tens of thousands of dollars in interest payments over time while still building equity. The earlier the process starts, the better.

Here's a checklist of considerations in downsizing your life:

Get advice first: As mentioned, downsizing should be a holistic process, a chance for a check-up of your overall finances while identifying things, expenses and habits in your life that you can jettison. A CFP® professional can give you a push by asking important questions that will get you to a better place financially. It's helpful to set up a plan to extinguish debt in all of its forms and move on to a check-up of savings, investments and estate matters.

Downsize potential health issues: No matter what the final effect of health reform on pocketbook issues, your out-of-pocket and premium-based health costs over time will be cheaper if you take steps to better maintain your health. Make weight and other personal health maintenance issues a new priority as you move into your pre-retirement years.

Plan for a retire-career: You might be working for a company or organization that has a mandatory retirement age or you have a year in mind when it might finally be time to pack up and go. And there's nothing wrong with a retirement devoted to travel and leisure activities. But if you think you won't be able to afford to quit working completely or if doing nothing will eventually drive you nuts, consider getting some career counseling, personality testing and do some research now that will help you train for a new full- or part-time career for after you retire from your present job.

Start thinking about real estate and new places to live: Today's retirees don't necessarily have to move to predictable retirement destinations. Telecommuting allows many people to continue working lives and education from anywhere. For many people, the magic combination might involve cheaper real estate, desired weather and activities, travel options and access to good doctors and quality health care facilities. Decide what kind of home you could see yourself living comfortably in at age 70 or 80. This combination of factors might happen in a surprisingly large number of places based on individual preference. To get you thinking and hone your expectations, start with resources like [U.S. News & World Report's online "Best Places to Retire"](#) selection tools.

Talk to your family: It's really important to discuss not only your expectations for later in life with your family members, but it's important to get their feedback on what they consider good ideas for you. There may come a day when you need to rely on others for help, and it would be a good idea to identify how realistic that is. Also, if you're talking about downsizing certain assets or property that might have been in your family a long time, it's important to discuss that with others who might be affected by that decision.

Start weeding: Physical downsizing isn't something that's done in a month. Give yourself a year to go through each room in your home and prioritize what you're really going to need if you move to a smaller place. Make a list of what you hope to give to friends and family members and what you'll donate or trash. Time will give you more opportunities to put good, usable items in the hands of people who could really use them. Develop a recordkeeping system that fits you so you won't forget any decisions you've made along the way. Also, you might want to set up a separate area for family photos and other keepsakes that have high emotional value and set up a hopefully egalitarian system for who will get what either when you move or when you die.

Don't start upsizing later: When you do move, chances are you will need to invest in some new household items or possibly furniture to match new surroundings. Try to avoid going overboard with this – that's why thoughtful downsizing should prevent a lot of spending for stuff you've already chucked. Oh, and make a permanent life decision if possible not to start re-using credit cards or mortgage debt if you can possibly avoid it in your later years.

February 2010 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Marnie Aznar, MBA, CFP®, a local member of FPA.