

Should You Rent or Own Your Home in Retirement?

Moving after retirement is a very popular goal for many retirees. Often people want to downsize, try living somewhere new, or move closer to kids and family. Others are often looking for a second home or a vacation getaway. With that choice comes a pivotal decision: should I rent or buy my next home?

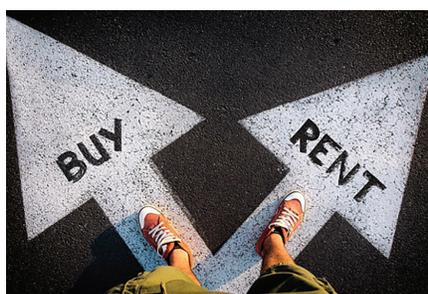
Some people might wonder why we're even asking the question. After all, renting is just throwing your money away every month, right? At least, that is something many of us heard when we rented our first apartments. There is a great deal to consider, and renting may actually be the best financial decision you can make.

As people enter retirement, there are multiple factors to consider. Purchasing a home could tie up your assets for the foreseeable future, while renting allows you to keep your assets liquid, making it easier to pay for unexpected necessities, travel, etc. While it is possible to access home equity, that may involve jumping through a number of hoops to do so. Additionally, the Tax Cuts and Jobs Act of 2017 significantly decreased the tax benefits of purchasing a home, meaning it no longer offers all the tax savings it once did. Moreover, investing the money that might otherwise be used to purchase a new home may turn out to be more lucrative. Home values typically appreciate 3.5% to 3.8% per year, while the average annual return for the S&P 500 is roughly 8%. Of course, past performance is no guarantee of future outcomes. Also, people approaching or living in retirement may want to invest more conservatively than someone in the middle of their career. Nonetheless, it would be very feasible to exceed the return you'd receive buying a new home by investing in stocks instead and simply paying rent.

How long you plan to stay in a location can also be a determining factor. If you plan to stay for ten years or more at a new location, purchasing probably makes sense. However, if you plan on staying for less time, especially less than five years, it's unlikely that you'll be able to make up the moving costs, broker fees, mortgage closing costs, and other expenses associated with purchasing. Also, where you choose to move can play a significant part in your decision. In general, renting is cheaper than buying in areas where real estate is especially expensive, such as on the coasts. The

opposite is generally true in the middle of the country. Renting can be a good option if you plan to travel a great deal. This way, you don't need to constantly monitor your house from afar and deal with any problems that may arise.

If you're moving to a new area for retirement, it's often a great idea to rent, at least initially. This way you have more time to get a sense of your new hometown, and you're not stuck with anything that you're not happy with a few months or years after moving.



Of course, there are many benefits to owning your home, the most obvious of which is that you don't have a landlord. There's no chance your home will be unexpectedly sold, forcing you to move, and if you want to change something in your house, no one can tell you not to. Additionally, fixed mortgages are a flat

cost, while rents tend to increase annually. But budgeting for maintenance and repairs is a cost borne by owners that renters don't have to worry about. Additionally, it can be a family asset, since having a home to bequeath to your heirs avails itself to estate planning opportunities. And although some of the bigger tax incentives are no longer around for home purchasing, remaining incentives such as the mortgage interest tax deduction and potential property tax deductions may be leveraged depending on your individual situation. And of course, building equity can be a great long-term advantage.

The right answer to renting or buying depends on your particular circumstances. You'll need to do the calculations on which scenario makes the most sense for you and your family, based on expected future costs, benefits, personal risk tolerance, etc. Along with that, it's important to explore the intangibles associated with the decision. Would it take a load off of your mind knowing that it's not your problem when there's a leaky sink or the driveway needs to be shoveled? Alternatively, do you value having full autonomy and control over your residence? In many ways, these non-financial aspects of the decision can have the greatest impact on our day-to-day experience in our home lives; as such, it's important to balance them with the dollars-and-cents calculation to determine what creates the best situation for you and your family.

The Secret to Happiness

With the winter Olympics right around the corner, it causes us to reflect on past winners. Think back to the gold medalists in past Olympics, beaming with pride. But what about the other two? Did the bronze winner look... happier than the silver winner? If you noticed that, you aren't alone. A 1995 study in the *Journal of Personality and Social Psychology* analyzed the medal winners of the 1992 Olympics and found that bronze medal winners tended to be happier than silver medal winners. The authors' explanation of this was "counterfactual thinking," that the Olympians were comparing what they had achieved to what might have happened otherwise. The silver medalists' most likely counterfactual was having won gold, while the bronze medalists' counterfactual was most likely not having won a medal at all.



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Unfortunately, counterfactual thinking isn't limited to just Olympic athletes. People experience it all the time, frequently when choosing what options to pursue in life and retirement. Ironically, having many options to choose from can decrease peoples' happiness. In his book *The Paradox of Choice: Why More is Less*, Barry Schwartz discusses how choice overload, a situation where people are overwhelmed when they are presented with many options, causes them to be less satisfied that they had made the best decision, forever wondering about the path not taken.

So, when choosing where to go to dinner, what kind of vacation to take, or how you'll spend your retirement, what can you do to be happier with your decisions? Schwartz recommends satisficing rather than maximizing your choices. People who go with the option that meets the requirements of their situation tend to be happier than people attempting to find the very best option among their choices. Another recommendation is to curtail social comparison. No matter what decision you make, there'll always be somebody who made a different choice who's happier (or at least appears to be). If you're comparing yourself to them, you're going to be less happy with what you have, even if it meets all your decision criteria. Finally, he recommends practicing gratitude. If things have been going well for a while and something unfortunate happens, it's easy to get very angry with your circumstances. But, if you take a breath and think about how grateful you are for your long-term situation, you can put this recent setback in context and still find happiness.

Key Contribution Numbers for 2022

The Internal Revenue Service recently announced cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2022.

The specific details of the limits and their changes are listed in the table below. If you have any questions or would like more information about retirement accounts, feel free to reach out to your HCM Advisor today.



Retirement Plan Type	2021 Contributions	2022 Contributions	Age 50+ Catch-Up
401(k), 403(b), and most 457	\$19,500	\$20,500	+\$6,500
Traditional IRA	\$6,000	\$6,000	+\$1,000
Roth IRA	\$6,000	\$6,000	+\$1,000
Simple IRA	\$13,500	\$14,000	+\$3,000
SEP IRA	\$58,000	\$61,000	N/A
Health Savings Accounts (Individual)	\$3,600	\$3,650	\$1,000*
Health Savings Accounts (Married)	\$7,200	\$7,300	\$1,000*

*HSA catch-up contributions are allowed for individuals 55 years of age and older.

HCM Supporting the Community

We've spent our whole lives in this community, and we're proud to give back when we can.

There are a number of occasions on which we give to charity:

- ◆ In honor of client birthdays
- ◆ When we receive a response from a client survey
- ◆ Employee donations for "casual dress" days
- ◆ Sponsoring HCM employees who choose to participate in charitable activities through our healthy living allowance

Some of the charities we were proud to support this past year include:

- ◆ Freestore Foodbank
- ◆ American Foundation for Suicide Prevention
- ◆ American Red Cross
- ◆ Matthew 25 Ministries
- ◆ Aubrey Rose Foundation
- ◆ Rainforest Action Network
- ◆ DAV (Disabled American Veterans)
- ◆ St. Jude's Children's Hospital
- ◆ Alzheimer's Association
- ◆ Angel's Paws
- ◆ Feeding America



HCM & HG Community Shred Day a Success!

We were excited to host our first Community Shred Day Saturday, November 13, 2021. In two hours, over 90 cars dropped off 3.5 tons of documents for shredding, along with 3 boxes of CDs/floppy disks that were disposed of securely.

As companies that offer financial planning and accounting services, we're well aware of the mountains of sensitive documents people can accrue while managing their finances. We decided to offer this to the community so people would have a safe and secure way to dispose of these documents.

The response was absolutely amazing. We nearly filled the entire shred truck in just a few hours. The truck driver said this was one of the best events he's ever seen.

We hope to host more events like this in the future – we'll let you know when the next one is scheduled.



Share the Warmth – Donate a Winter Coat Today!

We're proud to partner with St. Vincent de Paul for their Winter Coat Drive again this year. We are asking employees, clients, vendors, and community members to donate new and gently used coats, for both adults and children, as well as gloves, hats, and scarves, which will be made available to neighbors in need this winter season.

The coat drive extends through January 28th. We have "no-contact" collection barrels in the foyer on both floors at 6116 Harrison Avenue. Simply stop in and drop your coat donations into the barrels. If you would like to make donations but can't get to the office, let us know, and we will come to you.

Please look through your closets for any coats and jackets not being worn. We will share these with neighbors who will be so grateful to receive your new and gently used winter wear. Thanks for whatever you can give!



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