Simplifying a Difficult Senior Planning Decision: The Family Home

As Father Time marches on, the question of what to do with the home becomes a greater concern. In some cases, ruminating on the alternatives can dominate one's thinking. If a person is aware of the various options and chooses a path that makes the most sense, peace of mind can often be the result.

Studies have shown that 90% of married couples and 62% of single persons reach retirement owning their own homes. Coupled with non-monetary considerations of whether to stay or sell, one major objective is how to convert the equity in the home to an income.

In some cases, selling the home is the most attractive option. However, remaining in the home could be simpler and less stressful. Many people are too quick to jump to the "sell" option because they are not aware of all the options that would allow staying in the home and extracting the equity as well.

Weigh each of the following options against selling before throwing in the mental towel and listing the home.

An AARP study done in 2000 showed that more than 90% of seniors wanted to stay in their homes for as long as possible. Almost 82% still wanted to stay even if they needed care.

That is a very loud vote. Therefore, I would recommend looking at long term care insurance that either only provides home care or a more comprehensive plan that includes home care. Many seniors balk at the topic of long term care because they figure they will never go to the "home." Statistically, 50% of them are right. What many fail to realize is that at some point almost everyone will need some kind of help. Home care benefits may provide the needed assistance while allowing the person to remain in their home.

As seniors age, the upkeep of the home may become overbearing. The lawn still needs cutting, the bushes trimmed and the flower beds kept free of weeds. The inside needs dusting; the carpet needs vacuuming and the windows need washing. Eventually, in many people's minds, these become reasons to sell.

I would invite you to put a pencil to this. Look at hiring someone to come in and clean. Hire a lawn maintenance company or the teen-ager down the street trying to pay for his car. Having these things taken care of in this manner is a lot less expensive than moving to a retirement home.

If the home is too big, close some rooms off. If it cost too much to heat or cool, seal the vents in un-used rooms.

Sometimes it may make sense (both for the senior and the child) for one of the children to move in and serve as a caretaker, cook, lawn-cutter and/or pool boy/girl.

There are several ways to get the equity out of the home, while continuing to live in the home.

First, the home could be re-financed. Mortgage interest rates today are low. Properly invested, the funds released could cover the new mortgage payments. If not, the difference could be less expensive than rent. Depending on the person's age, putting a part of the proceeds into an immediate annuity may even cover the mortgage payment and then some.

If the person has a retirement plan that mandates required minimum distributions starting at age 70 1/2, the interest deduction on the new mortgage could be a welcome offset to the RMDs, which must be included in taxable income.

For large estates subject to estate taxes, placing the home in a Qualified Personal Residence Trust (QPRT) can potentially remove the home, and any appreciation from the date of the transfer into the trust, from the taxable estate. Proper trust drafting can also provide for the housing needs of the survivor of a married couple and, ultimately, leave the home to the children.

Selling the home to the children is another option. By structuring the sale and lease back according to the rules, the $250,000 single person or $500,000 married couple capital gains tax exclusion could apply. Here, again, the parents would continue to live in the home and pay rent to the children. This removes the home from the taxable estate as well.

A gift-leaseback is an alternative. The value of the home will use up part (or all) of the lifetime unified credit. Consult a tax attorney if the value of the home is large and this option is one of the ones on the table.

If the homeowner(s) are age 62 or older, a reverse mortgage may be a viable option. The National Council on Aging calculates there are 13.2 million seniors who could qualify for a reverse mortgage of $20,000 or more. The average would be $72,000.

Reverse mortgages can reduce or eliminate the children's inheritance. Today, there are Federal Rules for reverse mortgages and about 90% are federally insured. Fees can be high and will differ among lenders. Shop around.

Prior to making the decision to stay in the home or sell, each of these options should be part of the discussion among the senior, their children and financial advisors.

About the Author

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