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The New Retirement Dream: Relocation

Moving where money goes further has gained popularity as a retirement strategy



Illustration by Jon Krause

Today's retirees are yesterday's hippies, yuppies and war vets—men and women who came of age in that tumultuous time of the Vietnam War, the fight for civil rights, second-wave feminism and momentous revolutions in sexuality, music and fashion.

Is it any wonder that they want more from retirement than a rocking chair and a fishing rod?

Alas, chiefly because of the financial crisis and the worst recession since the Great Depression, many faced with dwindling resources cannot afford the ideal retirement in upscale locales they had previously visualized.

That's why more and more 60-somethings are seeking to stretch their retirement savings by relocating to places where the living is cheap and where—in seven states—there is no state income tax. Some retirees are even moving to foreign countries, where they not only can make their money last longer but find excitement in a different culture and exotic geography.

Whether it's central Florida or Central America, the fear of [outliving their retirement nest eggs](#) is typically what drives the yen to spend those golden years in a more affordable locale.

"It helps clients free up their money and gives them more breathing room. If, originally, it looked like they'd run out of money at age 85, now that probably won't happen till they're 102," says Guy Weinhold, a financial advisor with Edward Jones in Bee Cave, Texas, on

the edge of Austin.

However, FAs agree that decamping to the tax-free states of Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming simply to avoid paying state tax and otherwise reduce expenses is pennywise and pound-foolish.

“As a planner, it’s important to first think about what the client wants their lifestyle to be, then figure out if they can afford it. It isn’t just about the money—that’s the last part of the equation,” says Linda Lubitz Boone, founder-president of The Lubitz Financial Group, in Miami. “Even if they don’t have [many assets], you can pretty much make anything work.”

Lubitz asks clients to envision the activities they’d like to participate in during retirement. Then she creates a budget, including what they’d be willing to give up—like lots of travel or a second car. With that information, she then determines the best place for them to live.

Among cities with a low cost of living and affordable housing are Omaha, Nebraska; Knoxville, Tennessee; and Tulsa, Oklahoma. **While the state of Florida is immensely popular with retirees, partly because it has no state tax, “Florida is not an inexpensive place to live,” other than the central region, Lubitz says.**

Advisory Role

Advisors can indeed play a critical role when clients are making the life-changing decision of whether or not to uproot themselves and move far away, hopefully, for the rest of their lives.

“You’re playing devil’s advocate,” Weinhold says. “It’s a matter of being a sounding board. When someone walks in and says, ‘We plan on retiring in three or four years, and we think we want to move to Branson, Missouri,’ I say, ‘We need to have a conversation about that.’ Sometimes we have to rein in their emotions and have tough conversations but be pleasantly assertive because they’re looking for leadership.”

Weinhold continues. “We evaluate the pros and cons and try to make educated, high-probability decisions. Then we need to continue the dialogue not only till they move but afterward, to see if they’re getting the savings they thought they would.”

Several clients of Peter Eckerline, a Merrill Lynch managing director and financial advisor, who heads The Eckerline Management Group, relocated from California to Florida because of the latter’s tax-friendliness and lower cost of living. Another client couple moved to Las Vegas.

“They’re not golfers and didn’t want to just sit around,” recalls Eckerline, based in Wayzata, Minnesota. They love Vegas and report that “there are a million shows to go to and something to do every day. The wife has taken part-time work to bring in some extra income.”

Because the couple is now taking out somewhat less from their retirement portfolio, Eckerline has updated their financial plan to show an increase in assets they can transfer to heirs.

Other Eckerline clients, whose retirement savings took a major hit in 2008, moved from Minnesota to the Ozark Mountains, in Missouri, after finding they were unable to fund their dream retirement on the west coast of Florida.

“They didn’t want to return to work, and the Ozarks has a much cheaper cost of living,” Eckerline says. “Also, they wanted to go back to Minnesota frequently—driving is a lot cheaper than flying.”

The advisor adjusted their portfolio to beef up growth—more equities versus bonds—since the couple would now be drawing down less income than initially planned.

Across Borders

A more unconventional approach to retirement relocation is making the move to a foreign country. Latin America, especially Central America, is notably popular with American retirees, who spend little for a lovely place in the sun in such places as Belize, Costa Rica, Nicaragua and Panama.

“We’re definitely seeing more and more Americans moving overseas, trying to get more bang for their buck and reduce expenses. They’re also looking for a more interesting retirement and an adventure rather than doing the typical thing of going to Florida or Arizona,” says Lief Simon, financial editor of the online Live and Invest Overseas.

Topping the publication’s 2014 Retire Overseas Index of appealing locales is the sunny Algarve region on the coast of Portugal. Most Americans aren’t familiar with it, but Algarve boasts a solid expat community of British and other European retirees.

“Algarve probably has the best weather in Europe, some of the best beaches, lots of old-world charm and excellent health care,” says Kathleen Peddicord, publisher of Live and Invest Overseas. She and husband Simon reside in Panama City.

Right now, Algarve has even greater allure because of its new foreign residency program with tax advantages: For the first 10 years of residence, pensions and other income aren’t taxed.

A number of Latin American countries, especially those in Central America, are competing for American retirees' attention now that Costa Rica and Panama have proven to be such big draws and are benefiting from the influx.

Another locale that's jumped up on the Retire Overseas Index is Nicaragua, particularly the city of Granada. It recently started a retiree residency program that is "the cheapest available anywhere in the world," according to Peddicord. The income requirement is only \$600 a month. In contrast, the minimum monthly income in Belize is \$2,000.

"Nicaragua is a super-cheap place to live and has beaches as beautiful as those on the coast of Costa Rica," Peddicord enthuses. "It's an interesting choice for someone who wants the Pacific coastal lifestyle but can't afford it in the States or even in Costa Rica, which has become much more expensive."

According to Simon, financial advisors in the U.S. tell clients who want to retire overseas that they're "crazy." "They don't understand some of the aspects of moving; so they give uneducated responses. Some tell clients it's illegal to own property in Panama, for example."

But also, says Simon, "Financial planners don't want to see clients move their assets out from under their control when, for instance, they buy an apartment [overseas] and have to sell current investments to do so."

Yet advisors are realizing that "because many clients are interested in the idea of moving overseas—some full-time, some part-time—they need somebody who can help them structure things so they can manage their affairs," Simon adds.

Investment portfolios can be left in the U.S. and handled by the existing FA. Most expat retirees continue to manage their retirement income through a U.S. bank account.

In some low-cost Central American countries, like Panama, even retirees of modest means can afford live-in help.

This may include those in "the Social Security Crowd," as Simon says they are called. "They have only Social Security and a little bit of assets. There are cheap places to live in the U.S., of course; but apples to apples, the cost of living is certainly less expensive in Latin America and the quality is [better]."

There, American retirees often turn their hobbies—arts and crafts, music, dance and tutoring kids—into their work. They also volunteer their time as a way to give back to the community. For instance, in Nicaragua American retirees have opened a health clinic.

There are numerous issues that retirees should think about, however, before moving to a foreign country, not the least of which is access to quality medical care and proximity to children and grandkids back in the U.S.A. Medicare provides no coverage to Americans residing outside the U.S.

Quality Control

The biggest consideration about retiring to another locale, domestic or international, pivots on quality of life.

"Many times all that people are looking at are the dollars and cents," Weinhold says. "But there are soft costs as well as hard costs. Housing and whether or not there's a state tax are hard costs. Soft costs are the people, the food, the climate. There are also intangibles like losing touch with relatives and old friends."

On the investment front, advisors would do well to make clients aware of issues not likely to occur to them; taxes and municipal securities, for example.

"If a client bought a tax-free municipal bond in one state, say Minnesota, and then moves to, say, California, it would no longer be tax-exempt," Eckerline notes. "So if clients have municipal securities, we reposition that part of the fixed income to fit the state they're in."

It comes as no surprise that many relocated retirees find their new surroundings lacking and after a year or two, pack up and go home. Doing a try-before-you-buy, like a six-month rental, to at least get the feel of a place could help to avoid such mistakes.

No locale is universally popular, of course, no matter how appropriate for retirees. While advisor Weinhold's aunt loves the Texas retirement community she relocated to from California, his mother-in-law, also from the Golden State, "wouldn't move there to save her life," he insists.

"She says: 'I don't want to be around old people.' I keep trying to tell her," the FA notes, "she's one of those people."



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