The true cost of staying home for retirement

Kelley Holland | @KKelleyHolland
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Peak moving season is fast approaching, but most older Americans won't be going anywhere. Almost three-quarters of Americans over age 45 feel strongly that they want to stay in their current residence as long as possible, and another 13 percent believe that to some degree, according to research by AARP. And a December study by the Demand Institute found that 63 percent of boomers do not plan to move.

Whether they can swing it financially is another matter.

Home ownership is expensive, considering home repairs and maintenance, insurance and taxes. And millions of Americans are facing retirement with limited savings: According to a new study by the Transamerica Center for Retirement Studies, the median total household retirement savings for Americans in their 50s was just $117,000.

Not surprisingly, people find it difficult to set aside a rainy day fund to cover things like emergency home repairs, with just 38 percent of the respondents to a recent Bankrate survey saying they could cover a sudden $1,000 expense with savings.

"People are unrealistic about their ability to take care of themselves." said Cathy Curtis of Curtis Financial Planning.

One reason home ownership is becoming more challenging in retirement is that more people are still paying off mortgages during their so-called golden years. About 30 percent of Americans over age 65 had a mortgage in 2011, up from 22 percent in 2001, according to a Consumer Financial Protection Bureau analysis of Census Bureau data.

As a result, housing costs start eating up more of seniors' income as they age. A report by the National Housing Conference's Center for Housing Policy found that one-fourth of households with at least one resident who's 85 years or older spent at least half their income on housing, compared with one-sixth of households headed by people under age 65.
Then there are home repairs. Many of the most common emergency repairs are not cheap. Tom Rusin, CEO of HomeServe, estimated the cost of a new heating system at over $6,000. Replacing a new water heater costs about $1,100 on average, he said.

Making home modifications can also add up. MetLife calculates that two grab bars can be had for $250, but adding a ramp to a home can cost $1,600 to $3,200 and remodeling a bathroom can run from $3,500 to $35,000.

Curtis has worked with several clients refitting their homes so they can age in place, and she estimates that the changes "can cost potentially upwards of $20,000 to $30,000 or more, depending on how extensive they get."

In addition, property taxes and utility costs generally head in only one direction—up. Average state and local property taxes nationwide rose nearly 19 percent between 2006 and 2010, according to the Tax Foundation.

And as people age, they will likely need some in-home care, said Sandy Markwood, CEO of the National Association of Area Agencies on Aging. "Sometimes people start out needing in-home support or chore services a couple hours a week. Then over time that increase. Then they need transportation services. Then they need home-delivered meals," she said. "These are cheaper to provide in a home than in an institutional setting, but all of these things start adding up over time."

The rule of thumb is that a comfortable retirement requires an income of at least 70 percent of preretirement income. But an analysis of Census Bureau data by Interest.com, a personal finance website owned by Bankrate, found that in 49 out of 50 states, retirees' income was 50 to 60 percent of the income of those ages 45 to 64. (Seniors in Nevada squeaked by with median income at 70.78 percent of the younger group's.)

In addition, incomes tend to decline in retirement. Harvard's Joint Center for Housing Studies found in a study last year that the median income of households aged 55–59 in 2012 was more than $5,000 lower than that of households aged 45–49, with the disparity widening to $15,000 between households in their late 50s and those in their late 60s. And the Transamerica study found that 42 percent of respondents in their 50s expected their standard of living to decline in retirement.

Despite the financial challenges, there are compelling reasons for seniors to age in place. An AARP survey on home and community preferences among older Americans found that two-thirds cited proximity to friends and family as their main reason for staying put, and a similar proportion pointed to their closeness to doctors, libraries and other places they might frequent.

As for seniors' health, a study for the National Institutes of Health examined how older Americans receiving long-term care in their communities fared, compared to their counterparts in nursing homes. They found that the group that remained in their communities had better cognition, less depression and a greater ability to manage the activities of daily living.

So how can seniors stay in their homes?

For one thing, it's a good idea to build up an emergency fund for household repairs. Rusin pointed out that with 128 million hot water heaters in homes across the country, with useful lives of roughly 10 years, 12.8 million will fail every year.

Taking steps to generate a reasonable income stream may help as well. The government has created incentives for people to place assets in longevity annuities, which pay out later in life and can reduce or eliminate the risk that people will outlive their savings.
Waiting to take Social Security benefits will also generate more income. For every year after your retirement age, up to age 70, you will receive an 8 percent delayed retirement credit that increases your payments. If you are 65 today, your full retirement age is 66. If you wait to start taking benefits until you are 70, your benefit will be 32 percent higher than if you start at age 66.

Some experts recommend reverse mortgages as a means of insuring that income will continue in old age. Seniors ran into serious problems with reverse mortgages in the past when some were persuaded to buy products that were inappropriate for them. But the Federal Housing Administration has introduced new safeguards, and a 2014 research brief from the Center for Retirement Research at Boston College found that the protections "should make reverse mortgages better for borrowers."

"A reverse mortgage would solve that problem of getting at your home equity so it gives you a stream of income but you are still able to stay in the home you have lived in for 30 years," said John Scott, director of the retirement savings project at the Pew Charitable Trusts.

Staying in your home may be more complicated and expensive than you think, but with a little planning you can be homeward bound on your own terms.