



# Downsizing May Be Your Life Preserver *Part 2 of Series*



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In our last issue we discussed the impact that 80 million<sup>1</sup> retiring baby boomers will have on the real estate market for years to come. Many will likely want a simpler, more carefree lifestyle and that probably means unloading the family mansion (no matter what the size is, our home is our castle). No more expansive yard with all the landscaping maintenance, less of your hard-earned money going for property taxes, lower utility bills, and no more Mrs. Clean to eat up too much of your precious weekend.

We also pointed out the demographic facts – there are millions less Gen X'ers<sup>2</sup> (potential new buyers) to be able to purchase the glut of residential homes for sale from downsizing baby boomers who have an empty nest (unless of course unemployment remains high, and the kids and their entourage move in – egads! Better sell now!<sup>3</sup> It is this simple economic principle – too much supply, not enough demand, which may keep some real estate values depressed for quite some time!

So if you were waiting for a real estate market turnaround to sell the big house to help fund your retirement – you may not get there soon enough!

Interestingly enough, what I have been touting for a while now, I am starting to see in print- written by those individuals purported to be the experts. With 80 million retiring baby boomers starting to draw down (liquidate) on their IRA's, 401k's and other retirement plans, what do you think the prognosis may be for the stock market for several years?<sup>7</sup> The boomer generation has been compared to a pig in a python – they have impacted everything from the influx of money into the market as they began to save for

college educations and retirement, to the type of car the auto industry manufactured for their current lifestyle needs. Now we have the "crossover" – the part minivan/SUV, and part sedan like grandpa used to drive.

Well, I actually do think that word is subtle marketing genius. Retirees are crossing over a threshold; working years to retirement years. Simply put, "income producing years" to "income distribution years."

With the tumultuous economy we are experiencing, and the tough grind that may be ahead of us, boomers may have a lot to deal with. Likelihood of higher taxes, inflation, increased global volatility, and increasing health care costs as we age, just to name a few.

The time to take action may be now. It may be imperative to your financial health to reassess your future inflation adjusted income needs, the investments you are currently holding, and the life you would hope to have after a lifetime of hard work, to see how your current situation matches up with your objectives and values. Many are looking for the "dream retirement" whatever that may be. For this to be possible, we need to set REALISTIC and ACHIEVABLE goals.

### *Here are some ideas to stimulate your thinking:*

1 Again, do you really need or want the responsibilities of owning the big house? Is it time for you to downsize?

2 Do you realistically think the real estate market has a big rebound in sight?

3 Could you possibly use proceeds from your family home

sale to purchase a smaller home, town home or condo? Before they are really in demand? (Remember the boomers' changing needs affect many things!)

4 Would a smaller more manageable mortgage make sense? Rates are still very low, and besides, why tie up all of your \$\$\$ in bricks and mortar. That strategy won't put food on the table or pay for health-care.

5 Have you considered a potential drop in income when one spouse dies and there is only one S.S. check and a reduced, or no pension coming in?

6 Can you research possible opportunities to potentially replace some lost income in a safe, systematic manner?

There may be all kinds of tax increases in the coming years. Here are some that have been discussed by our politicians:<sup>4</sup>

- The bracket creep – ending the cost of living increases in the tax brackets?
- Replacing capital gains tax rates with ordinary income tax on all investment earnings.<sup>6</sup>
- Eliminating the "step-up" in basis at death and replacing it with income tax rates.
- No more deductions for mortgage interest paid, state taxes, property taxes, and charitable donations.<sup>5</sup>
- Issuing 1099's on the value of your health insurance benefit or adding the income directly to your W2.<sup>5</sup>

If some of these ideas to reduce our deficit become law, the result could be an increase in taxes, with many Americans not realizing how the outcome may affect them.

### **So what can we do???**

Most people can do their best to plan ahead and some may be required to swallow a hefty dose of realism when it comes to their goals. You may need to be more frugal and careful with how you spend and only do what's really important to you. Eliminate the fat.

Take the best possible care of your health – eat nutritiously, and eat less. Obesity is one of the major contributors to many serious diseases. And exercise – even if it's just walking – get moving! A healthy body will likely need less in health care costs.

*Keep a positive attitude, stay connected to people.*

*In closing, we have one more thing to leave you with . . .*

FAMILY IS EVERYTHING, (as the name of our firm implies). Never has that been more important than it is today. Families need to come together, help one another, and plan for the future as a team. Together, we will do just fine. Keep the money you do have in the family. Don't give it unnecessarily to the government, or have it diluted from excess taxes, unmanaged risk, and poor planning.

Let us help you and your family be good stewards of YOUR money.

And let us give thanks for all the blessing that **we do have.**

*Happy Holidays,*  
Kathy, Sean and Ashley  
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