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Should I downsize to fund my retirement?

Financial advisers share with Nigel Bowen why downsizing isn't right for all.

One of the many things that doesn't make sense about Australia's property market is retirees rattling around in large houses in child-friendly suburbs while young families are squeezing into tiny, urban high-rise flats.

There's a perception many older Australians opt for a sea or tree change, or shift to a funky inner-city apartment, once work and child-rearing are no longer concerns. In fact, most 'age in place'. Statistics are hard to come by but one academic survey, *Downsizing amongst older Australians* by the University of New South Wales estimated only 9 per cent of Australians over 50 downsized between 2006 and 2011.

The great generational home swap

Reportedly, the federal government is considering removing barriers to older people downsizing by tweaking the rules around the age-pension asset test and the cap on super contributions.

But even if federal and state governments removed all existing financial disincentives, downsizing still wouldn't be the right choice for everyone.

"The advantages of downsizing are self-evident," says RetireInvest financial adviser John Walker. "There's the prospect of freeing up a lot of money. That can be used to generate extra income to fund those bucket-list dreams, or given to the kids so they have a deposit to get into the housing market. Of course, after a certain age, a lot of people don't want to be climbing stairs or maintaining backyards either."

Potential downsides of downsizing

Both Walker and Jacaranda Financial Planning senior financial advisor Brett Stene have seen downsizing go wrong for clients.

"If you just move to a single-storey house in the same area, or sell a four-bedroom suburban house to buy a two-bedroom flat in the city, you probably won't end up with much money," Stene warns.

"You can get around that by buying in regional Australia, or, as is increasingly occurring, somewhere such as Bali or Thailand. However, that can end up being a false economy if you then keep travelling back to Australia to visit family or medical professionals."

> "After buying it and paying all the moving costs I only ended up $15,000 ahead."
>
> Elayne Jay

While this may change, there are significant consequences to converting housing wealth to cash wealth, adds Walker.

"For example, let's say an averagely wealthy couple deposited $200,000 in their bank account after selling their home," he says. "They would then likely see their pension slashed by around $15,000 a year."

This is because the age pension asset test excludes your home but not your other assets in determining whether you get a full, part or no pension (See Human Services for more information on assets testing for the pension).

Elayne’s downsizing experience

In 1987, Elayne Jay, a recently divorced mother of four, bought a two-bedroom terrace house in Alexandria for $59,000. “This was pre-gentrification, when it was considered Sydney’s second-worst suburb,” she says.

In 2012 she sold it for $750,000. She then rented for five months while looking for an apartment she could spend the rest of her days in.

“I had a checklist,” she explains. “I wanted to stay in metropolitan Sydney, to be near good transport and be in a single-storey apartment with lifts and a covered garage. After a lot of time and effort, I found a one-bedder in Rozelle that met my criteria. After buying it and paying all the moving costs I only ended up $15,000 ahead. I no longer have a spare bedroom for the kids to stay in when they visit and I do miss my old neighbours. But, all in all, I’m very happy.”

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Walker, for one, has had clients coming to him saying they don’t want to move, but they need to either for money reasons or because they can’t maintain the property.

“I always point out there’s almost certainly a uni student nearby happy to earn some money mowing their lawn,” he says. “Also, they can release equity by taking out a reverse mortgage rather than selling. If they still want to move at that point I implore them to try before they buy. That is, lease their existing home and rent where they’re planning on moving to.”

This reduces the risk that the seaside town that seemed so delightful during a weekend stay might not seem so attractive once you’ve lived there for six months.

"Once you sell up in locations such as Sydney and Melbourne, it can be difficult to get back into the market," says Walker. "Especially if prices have gone up 10, 20 or 30 per cent since your departure."

Both Stene and Jay recommend taking a long-term perspective.

"Sometimes retirees will move to be near one of their children," says Stene. "That's fine, but what happens if the child then moves somewhere else a couple of years later? The other common issue is that a couple moves somewhere, then one of them passes away. That can leave the surviving spouse in place where they don't have a support network."

"Moving house is a major undertaking at any time of life," notes Jay. "It's not an experience you want to keep repeating. I'd suggest people work out where they want to live for the next decade or two. Then put the necessary care into searching for a residence that meets their long-term needs."

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