Why Some Seniors Upsize in Retirement

By Amy Fontinelle

You hear a lot about seniors downsizing in retirement, and it makes intuitive sense: more money to live off of during their Golden Years. Plus in many cases the kids are out of the house, all that extra space is not being put to good use anymore, and the upkeep and maintenance on a larger place is a headache.

What we do not hear much about are the seniors who actually upsize in retirement — and there are a lot of them, studies have found. Merrill Lynch and Age Wave surveyed about 3,000 people age 50 to 89 in August 2014 and learned that 30 percent of people age 50 and older who had moved since retiring had moved into a larger home on their last move, compared with 51 percent that purchased a smaller home and 19 percent that purchased a same-sized home.

Upsizing for Retirement Income

Bill Seavey, 69, and his wife Eleanor Seavey, 67, upsized from a three-bedroom, two-bathroom suburban home to a four-bedroom, four-bathroom home with an apartment in 2004. Upsizing has allowed them to have a home-based business in the form of a homestay inn: Her Castle in coastal Cambria, California, near Hearst Castle. The couple started hosting guests in mid-2005.

Before that, Bill worked as a rural town relocation consultant and book author (he still writes) and Eleanor worked as a daycare provider and retail store manager. Upsizing has allowed them to trade in those jobs for one that grants them greater lifestyle flexibility and, for Eleanor, fewer physical demands. Flexibility is important to them, as they travel frequently and like to spend time with their 11 grandchildren. When they want to travel, they do not take inn reservations for those dates.

Upsizing has brought the Seaveys financial benefits, too. Bill says their business brings in substantial income; without it, they would have to sell their mobile home, which is located about 35 miles away, to be able to continue traveling.

“It’s been perfect and even if we don’t do a full-time B&B — and we’re trending toward scaling back — we’ll always have an income property right on site,” Seavey said.

Other Reasons Why Seniors Upsize

While the Seaveys upsized to start a business, that is not the most common reason seniors purchase larger homes. In the Merrill Lynch–Age Wave survey, a third of up-sizers said they wanted more room for family members such as children and grandchildren to visit. A fifth wanted more room for family members to live with them, and another fifth wanted a more prestigious home. Others wanted more room for friends to visit.

A separate study of 4,000 households of 50- to 69-year-olds, conducted in 2013 by the Demand Institute, a nonprofit organization that researches consumer demand, found that of the 37 percent of baby boomers who said they planned to move, 46 percent were looking for nicer homes and more space. Many said they wanted to purchase the dream home they could not afford earlier in life. This group was less wealthy than the survey respondents who planned to downsize and was planning to spend an average of $180,000 on the home they would upsize to, versus $200,000 for boomers who planned to downsize.

The Downsides of Upsizing

While many seniors have upsized and it has worked out great for the Seaveys, purchasing a larger home in retirement can have several drawbacks.

Investment Advisor Representative Mike Chadwick of Chadwick Financial Services in Unionville, Connecticut, said most of the people he knows who have upsized regret it and it is often a money-losing proposition unless they manage to get a great deal on the home in a foreclosure sale.

“This is a funny fad and does seem to go against common sense,” he said. “It’s a combination of they can now afford it, kids are out of the house, the big expenses are gone and they want to treat themselves to something.” Another part of it is status: they want the big fancy house, especially in destination spots.

Chadwick said that in his area, most of the people who can easily afford to upsize are buying homes with 4,000 to 8,000 square feet that cost $600,000 or more, but the taxes can be $30,000 to $70,000 a year on such places; insurance can be pricey as well. And if they want to sell the home later (some go into the purchase thinking it is an investment), they will face a limited pool of buyers since only a small slice of the population can afford such houses. He thinks status is a bad reason to upsize; better reasons include community, geography, or desirable special features such as a golf course.

“Most of the people buying these houses have plenty of money and are well prepared for retirement,” he said, and while it may not be the best use of money, it is their prerogative.

Rhett Wood with Retirement Solutions in Oklahoma City said that some seniors decide to purchase a new home because by the time they reach retirement, their home may be a bit older and need updates, and buying may be preferable to remodeling.

However, “Upgrading your home can add a lot of expenses that will affect your retirement in a big way,” Wood said. “Think about it: you’re adding a mortgage payment, higher taxes and insurance, utility costs plus home maintenance. If you’re living on a fixed income like Social Security or a pension, all of these new expenses might not make good financial sense."

One way to upsize without taking on a monthly payment — aside from paying cash, of course — is to take out a reverse mortgage. While many seniors may have heard about using a reverse mortgage to age in place, they might not know that a loan called a "home equity conversion mortgage for purchase" makes it possible to buy a home with a reverse mortgage. It is a complicated decision that seniors should not enter into lightly, as reverse mortgages have lots of fees plus implications for moving into a nursing home or passing a home on to heirs.

Some retirees have a large 401(k) balance and see that as a good way to purchase a home, Wood said.

But taking out a substantial lump sum means paying lots of taxes, since regular 401(k) contributions are made with pretax dollars. Distributions are taxed as income, so a single filer who takes out $300,000 to pay cash for a home will likely pay a top marginal federal income tax rate of 33 percent on the sum. In 2016, the resulting tax bill would be $46,278.75 plus 33 percent of the amount over $190,150, or $82,529.25 (this simplified example assumes there is no other income besides the 401(k) distribution that year). Timing 401(k) withdrawals carefully by taking them over several years can minimize the tax impact.

"Many of our clients want a new home right when they decide to retire," Wood added. "If they're in good health and their money is working for them, this might seem like a good option. However, as they age, they sometimes decide a larger home is really more than they want to manage."

While upsizing might not cause any financial strain for some retirees, others will need to make sacrifices to make the math work.

“Seniors may want to reduce certain parts of their budget, such as travel, entertainment, vehicles, clothing, and extravagant expenses, to help afford a more expensive home in their retirement years,” said Steven Klein, reverse mortgage director at AmCap Mortgage in Greenville, South Carolina.

Upsizing doesn’t have to mean spending more money, however. By moving to an area with a lower cost of living, it may be possible to purchase a larger home for an amount similar to or less than what retirees net by selling their current home.

“The most important thing is to develop a good income plan and consider all the costs associated with a new home,” Wood said. “The more money it takes per month to maintain your lifestyle, the more money you will need to have set aside to last the rest of your lifetime.”