



RETIRE WISE

## Downsizing? Don't Forget About Closing Costs

Downsizing can be a great way for empty nesters to reduce overall housing costs and free up cash in retirement. Less square footage can mean lower utility bills, maintenance costs, and in many cases, property taxes. However, whether downsizing makes good financial sense for you depends on a number of factors, including where you plan to relocate and whether you plan to pay cash or finance your new residence. As you consider your options, don't forget to factor in the costs associated with the sale of your home, specifically, real estate commissions and seller closing costs, which can take a significant bite out of your proceeds.

### Real estate commissions

Typically, both the buyer and seller's agents receive a commission for the services they provide in connection with the sale of a property. These generally include researching comparable properties, setting a realistic price, marketing and showing the property, negotiating transaction details, and closing the sale. While commissions are negotiable, on average, they are 6% of the home's selling price, with 3% going to each agent.<sup>1</sup> So if a home sells for \$350,000 with a 6% commission, the seller's agent and buyer's agent will split the total commission of \$21,000, with each agent receiving \$10,500. While you may be able to lower these costs by listing your home for sale by owner, you will have to assume any costs associated with marketing the property and negotiating the sale, and you will still need to pay the buyer's agent, if they use one.

### Seller closing costs

In addition to the sales commission, typical closing costs for sellers include transfer taxes, title insurance, escrow, and attorney fees. These fees vary by state or region and can run from several hundred to several thousand dollars. In addition, you will be responsible for any seller concessions or credits you agreed to pay during contract negotiations. These could be costs associated with home repairs or certain closing costs you have agreed to pay on behalf of the buyer, such as the lender origination or appraisal fee. The seller is also responsible for paying any outstanding property taxes, mortgage balances, or liens on the property at the time of the sale.<sup>2</sup>

You also want to be aware of any potential tax consequences. Under the current tax law, you may exclude up to \$250,000 of a capital gain realized on the sale of your permanent residence, or up to \$500,000 if you file a joint return with your spouse.<sup>3</sup> While most people will not have to pay capital gains tax on the sale, if you've owned your home for decades or live in a market that has experienced considerable appreciation in recent years, you could end up with a tax bill. That's among many reasons why it makes sense to discuss your decision to downsize with your tax and financial professionals before that 'for sale' sign goes up.

If you have questions about how downsizing may impact your current strategy, let's talk!

1 Wood, Kate, "What Are the Closing Costs for a Home Seller?" Nerdwallet.com, 8 JUL 2021, <http://www.nerdwallet.com/article/mortgages/closing-costs-home-seller>.

2 Taylor, Mia, "How much are closing costs for home sellers?" Bankrate.com, 29 DEC 2022, <http://www.bankrate.com/real-estate/closing-costs-for-sellers/>.

3 "Topic No. 701, Sale of Your Home." IRS.gov, <http://www.irs.gov/taxtopics/tc701>.

Accessed 25 JUL 2023.

## Community Colleges Expand Curriculum to Attract Seniors

If you're thinking about downsizing or relocating in retirement, you may want to consider the benefits of living in a college town or a location with a growing community college. In recent years, community colleges throughout the nation have expanded their curriculums to appeal to retirees, with many offering substantial discounts or free classes and programs aimed at adults over 60. While you can always enroll in a degree program, many colleges have added non-degree programs in areas like art, history, language, music, culture, photography and cooking, as well as fitness-oriented programs such as yoga, swimming, and water aerobics. Even homebound seniors or those who don't live near a community college can get in on the action thanks to the availability of online or telecourses available at many community-based institutions.<sup>1</sup>

Living near a community college can also provide access to experiences beyond traditional education. Many host art exhibits, lectures, and performances featuring a wide variety of artists across different genres and venues. These often include concerts, plays, comedy shows, movie nights, and more.

Participating in programs and activities through local community colleges can also provide older adults with greater opportunities for social and community engagement, especially those moving to a new location in retirement. That's important because remaining mentally, physically, and socially active is believed to provide numerous benefits as you age.

### Benefits of lifelong learning

Over the past decade, significant data has been compiled on the benefits of lifelong learning. According to the National Institute on Aging, people who engage in personally meaningful activities, such as volunteering, hobbies, or learning new skills, say they feel happier and healthier.<sup>2</sup>

Learning new skills may be linked to improved cognitive ability. In one study, older adults who learned quilting or digital photography had more memory improvement than those who only socialized or did less cognitively demanding activities. The Institute reports that some of the research on engagement in activities such as music, theater, dance, and creative writing has shown promise for improving quality of life and well-being in older adults, from better memory and self-esteem to reduced stress and increased social interaction.<sup>3</sup>

So, whether you're looking to learn a new skill or are simply seeking an evening of entertainment, be sure to check your local community college's program and events calendar to see what interests you.

1 Chen, Grace, "Programs for Senior Citizens and Retirees at Community Colleges." Communitycollegeview.com, 28 APR 2023,

<http://www.communitycollegeview.com/blog/programs-for-senior-citizens-and-retirees-at-community-colleges>.

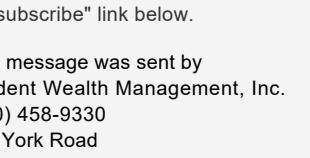
2 "Cognitive Health and Older Adults." Nia.nih.gov,

<http://www.nia.nih.gov/health/cognitive-health-and-older-adults>. Accessed 26 JUL 2023.

3 Ibid.

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