

Share The Wealth - Episode 13 - Retirement Dreaming - Funding That Second Home

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Leyah Dauber: Welcome back to another episode of Share the Wealth. With the summer season upon us, excitement is in the air. The warmer days, filled with summer fun, can certainly be a thrilling time for recent retirees.

Lyndsey Payne: It definitely is, Leyah. Spending those retirement days giving back to your community, or even spending time with your family and grandchildren, are certainly well earned.

Lyndsey Payne: Perhaps you may even be thinking about buying that second home. In this episode, we will cover the important aspects to consider when financing a second home. But first, let me read our disclaimer. This podcast is being recorded on June 13th, 2024. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as tax, investment, or legal advice.

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Lyndsey Payne: It is important to discuss your strategies with a professional before making any financial decisions, as the strategies discussed may not be suitable for you specifically.

Leyah Dauber: So let's get started with the whys. There are many reasons why one might consider purchasing a second home. It might be an alternative to renting a home, you might be fulfilling a dream of becoming a snowbird, or you might just be purchasing your second property to be closer to your friends and family.

Leyah Dauber: These are all things that you should consider.

Lyndsey Payne: The first thing to do is to pick a location. While thinking about places, don't forget about people. We people are human beings and we are also

social creatures. We live best when we have meaningful interaction with others. If you're a snow birder, have an op, you get to have an opportunity to add to their social circle by reaching out and making new neighbors.

Leyah Dauber: Yeah, and just remember by having that second property, it'll give you an excuse to go down to a warmer location, maybe for a mid-winter vacation.

Lyndsey Payne: The second thing to consider is, can I afford a second home? Owning a second home can be an exciting prospect, but it's essential to assess your financial situation carefully.

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Lyndsey Payne: Leyah has some insights here to help you determine if you can afford that second home.

Leyah Dauber: Yeah, so to get started, you want to calculate your budget for that second home. Take your monthly income in debt by calculating your employment income before taxes, other sources of income, any debt payments that you have, including your primary residence, mortgage, any housing expenses and other expenses, and then you'll want to take a good look at that and see what can you afford out of that budget.

Leyah Dauber: Then you'll want to look at your debt-to-income ratio. If your ratio exceeds certain amounts that lenders have, which you'll want to check with them, it could be challenging for you to get that second home. Once you have all this information gathered, you'll want to see what available amount do you have.

Leyah Dauber: If your debt-to-income ratio is too high, as I said before, you might have to find a way to increase some more income or reduce any debt so you can afford that second home.

Lyndsey Payne: Moving forward to the cash flow considerations. Utilities is one of the first cash flow considerations to look at. You'll need to budget for monthly electricity, water, gas, and other utilities each month.

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Lyndsey Payne: Depending on the location, their costs may be higher than your primary residence.

Leyah Dauber: Yeah, and another thing to consider with that cash flow is any maintenance costs. All homes need additional maintenance, so it could be from lawn care, snow removal, or other just routine maintenance on the house. Depending on the age and the condition of the property, you may have the budget in there for a new roof, driveway, patio, deck, anything that might come up.

Leyah Dauber: Consider these when you're evaluating purchasing that second home. This is what the expected startup cost would be, so make sure you put this into your long term planning budget.

Lyndsey Payne: Yeah, and making sure that you're budgeting out for property taxes in the mix, even if your mortgage payment is relatively small.

Lyndsey Payne: Some states out there will have a much higher, um, property taxes than others, and it really depends on the location of where you pick your second home.

Leyah Dauber: Exactly, and another thing that you'll want to look at is insurance planning as well. You'll want to have your base coverage on the home, but you'll also want to look in certain areas, such as Florida, maybe for flood insurance.

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Lyndsey Payne: As we mentioned earlier with property taxes, it's also important to know your tax situation. The tax breaks and credits that you enjoy in your primary residence may not apply to your second home. Depending on the home's location, your personal income, and legal right to rent the property, your property taxes and other deductions might vary.

Leyah Dauber: Exactly. And as Lindsay mentioned, if you're planning to rent the property out, maybe you're just going there for a couple of months out of the year. If you do intend to rent it for more than 14 days a year, the IRS will see this as rental property income and they will tax it, tax the income at that income rate.

Leyah Dauber: So that's something you should keep in mind when planning to rent it out.

Lyndsey Payne: So in conclusion, funding that second home in retirement requires careful planning and considerations. As you begin to explore the opportunity, keep in mind these following key points.

Leyah Dauber: Number one, do a financial assessment.

Lyndsey Payne: Number two, budget and affordability.

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Leyah Dauber: Number three, take a look at your debt management. Number four, interest rates. And number five, your long-term goals. Remember that your second home can provide enjoyment and potential income for you, but it's essential to strike a balance between your dreams and your financial well-being. Also keep in mind the affordability varies depending on individual circumstances.

Leyah Dauber: So, it's essential to consult with a financial advisor and explore the options that are tailored to your situation.

Lyndsey Payne: We hope you enjoyed this episode and stay tuned for our next one and as always don't forget, share the wealth!