

FIVE WAYS TO AVOID A POVERTY PACKAGE

‘Seachanging’ to a new lifestyle-rich location may be the right thing for clients, but only when their financial decisions are made with their feet firmly placed in their home turf to make sure they’re not buying into a poverty package.

Jill and Owen Weeks explain how to help clients avoid buying into a such a package.

A poverty package refers to a financial decision that many retirees get wrong when moving to a retirement location. They move their finance to their new location – which is often cheaper and gives them a bit extra to enjoy their new lifestyle with. However, if later they decide that they wish to move back to their previous lifestyle they can no longer afford it.

Jim and Edna moved from Canterbury in middle-class Melbourne to the seaside island town of Cowes 10 years ago. They sold their home in a leafy street for \$250,000 and acquired a brand new home three streets away from the shopping centre in Cowes. The new home and their updated furniture cost \$150,000. Nearly \$20,000 was spent on updating the family car, and most of the balance was spent on three overseas holidays.

Jim is now in his late 70s and needs specialist medical attention for his heart. Edna is in good health, but is missing the grandchildren, who all live in Melbourne, close to Canterbury.

While the local doctors in Cowes are highly regarded, they are not specialists who can treat Jim’s condition. Reluctantly the doctors have suggested Jim would be better living close

to the hospital where Jim’s specialist practises.

After spending months looking for suitable homes back in Melbourne, and Canterbury in particular, Jim and Edna have begun to realise that what they bought in Cowes 10 years ago was in fact a poverty package.

The Cowes property is now valued at a little over \$300,000. There are no properties in Canterbury valued at \$300,000. The old family home in the familiar leafy street is now conservatively valued at \$1.15 million. There is no way Jim and Edna can afford to move back to Canterbury. Some of the adjoining suburbs have properties for sale around \$600,000 (double the value of the home in Cowes). No one will lend Jim and Edna the money to buy even a \$600,000 home.



JILL AND OWEN WEEKS: be warned

What did Jim and Edna do wrong? The biggest cause of their problem is they invested in a family home located in an area that has not kept pace with the rise in Melbourne property prices. Things might have been very different had they acquired a waterfront property in Cowes.

The harsh reality is that there are a multitude of locations where the price of real estate does not keep pace with inflation. In some areas prices sometimes fall.

How can today’s retirees avoid making the same mistake? In addition to the finan-

cial aspects, we have developed a 20-point checklist of issues to consider when selecting a retirement location. Location, location, location is one of the key messages.

Five top ways to avoid buying a poverty package are:

- Seek independent financial planning advice,
- Check how house prices have moved in your own area in the past 10 and 20 years, then compare this to the location being considered,
- Gather as much data as you can on demographic trends and how they will change the face of some areas,
- Talk to several real estate agents, especially experienced agents with local knowledge, and
- Draw up your own checklist of features that a desirable retirement destination should possess.

Remember, if a particular property appears to be cheap, there may be a reason for this. Possible reasons could be plans to change a nearby highway, noise from trucks during the night, rowdy neighbours or new restrictions on what can be built in the area.

Lastly, retirees who make a mistake and have to move again can lose a significant amount of money in stamp duty, legal fees, removalist costs and buying new furniture. Be warned. ■■■

Jill and Owen Weeks are co-authors of “Where to Retire in Australia”. In addition, Owen is a financial planner and Jill is a researcher.