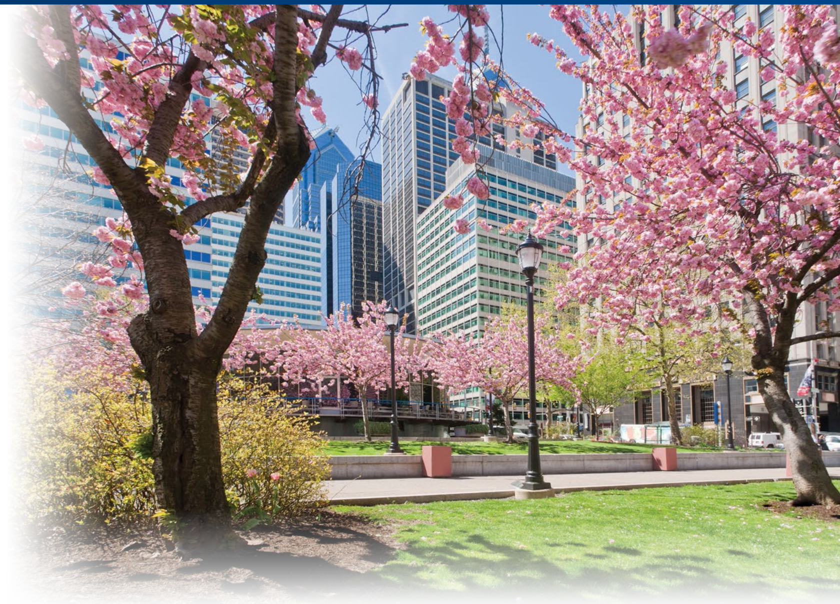
next nest

FAIRMAN GROUP
FAMILY OFFICE

ARE YOU AN EMPTY NESTER PLANNING YOUR NEXT NEST?

If you are ready to retire, entering a second career, caring for aging parents, or have adult children, you won't want to miss our series about the financial challenges, opportunities and gotcha's regarding second homes, out-of-state residency, remodeling and moving to the city.

NEXT NEST SERIES, VOLUME 1



MEET THE CARLSONS

James, age 60, is a VP and Director at a publicly-held company headquartered in Radnor, PA. His compensation package includes stock options, restricted stock, and deferred compensation, in addition to his base salary and bonus. His wife, Jeanne, age 58, owns a small Public Relations firm in Wayne, PA. She is self-employed.

Their three children are out of the house, each with their own personal and financial challenges. As new empty nesters, James and Jeanne are ready to pursue some of the home projects they have talked about for years. Their 30-year-old Main Line home is charming, but will need some remodeling to look fresh to buyers if and when they eventually sell it. The remodeling project includes:

- A complete kitchen upgrade
- Tearing down a wall to combine the currently formal dining room with the kitchen, making it, in essence, an open concept family room

The price ticket from the architect and builder: $175,000. According to Zillow.com, the house is currently worth $749,000.

James wonders if a sizable investment is worth it, and what sources they would tap into to pay for it. Realistically that could include investments, a home equity loan or other savings. To complicate matters, his firm is opening a new office in Center City Philadelphia sometime soon. He and Jeanne really don't need a lot of room for the kids anymore and city life seems appealing. As a Zillow hobbyist, James has taken note of several new construction homes in the Graduate Hospital area, starting at $899,000.

Jeanne's not so convinced moving is a good idea. She's amenable to city life; however, she'd still like her home to be the gathering place for friends and family. If they stay, she'll continue renting a small office space; if they move she may work from home or rent a fractional office space, like WeWork.

James and Jeanne sought the advice of Fairman Group Family Office. After an in-depth conversation about the Carlson's lives, businesses and goals, our advisors helped them with some financial comparisons, as well as made them aware of other costs—some that are not so obvious.

THE BIG QUESTION: SHOULD THEY STAY OR SHOULD THEY MOVE?

Let's check out the following stay or go comparison for the Carlsons, assuming a household income of $400,000 and investment income of $40,000.

IF THEY STAY

Where Will the Money Come From?

- Home Equity Loan, cash savings, company stock, non-retirement investments or retirement investments (James' IRA).
- James should not tap into his IRA. While he is older than 59½, they are still both working and earning significant incomes that are already taxed at a very high rate.
- The other options (or some combination) are still on the table.

Tax Implications:

- Income tax on earned income will remain the same.
- If they sell investments or company stock, they would have to pay Capital Gains Tax on the 'gain' of their investments. *Gotcha:* If the investment is held less than twelve months, the Capital Gains Tax would be the same as their ordinary income tax rate, not the lower longer term Capital Gains rate of at least 15%.
- James' IRA withdrawal would also be taxed at their ordinary income rate. They should not even think about withdrawing from Jeanne's IRA because she is only 58 years old—subject to a 10% penalty.
- Home Equity Loans are tricky, thanks to the new tax law. The interest is not deductible under the new tax law unless the loan is used to buy, build or substantially improve the home. Bottom line: HEL interest may not be deductible for a kitchen remodel, but would be deductible for an in-law suite addition that changes the footprint of the house.

Other Considerations:

- The Carlsons will need some new furnishings for the family room, so they will have to set aside a budget.
- They will still incur substantial operating costs of maintaining a large suburban home.
- They can still visit Center City often.

IF THEY GO

Where Will the Money Come From?

- Proceeds from the sale of the house minus the outstanding mortgage, savings, investments or some combination of sources.
- A new mortgage is a viable option—in its entirety, or to supplement other sources. A new 15-year mortgage, for instance, at 3.875% might be highly desirable. For instance, at a 35% earned income tax rate, the tax-effective mortgage rate would only be about 2.5%.

Tax Implications (different than if they stay):

- Philly Wage/Self-Employment Tax is currently 3.8809%; with household earned income of $400K, that's $15,524 in taxes.
- Philly School income Tax (on certain investment income) of 3.8809% applies to gains recognized on investments that they have held less than 6 months and ALL dividends. Applied to the $40,000 of investment income, that would be $1,552 in taxes.
- Combining Philly Wage and School Income Taxes, in total would be over $1,400/month in taxes.
- Keep in mind that the Philadelphia sales tax is 8%.
- On the positive side, a real estate tax abatement may be available. If so, they should explore how much and for how long.

Other Considerations:

- The Carlsons will need to furnish and decorate the entire house. Their living room furniture won't look so good in the new place, so they will have to set aside a substantial budget.
- They may need to purchase or rent one or more parking spaces.
- Their auto insurance is likely to increase if they keep all of their vehicles.
- They should also account for increased expenses because things cost more in the City and they'll be tempted to eat out and seek entertainment more often.
- They will still need to address Jeanne's hesitations about a potential move and the location of her business.
- On the positive side, there would be no landscaping or snow removal costs.

NEEDLESS TO SAY, THERE'S A LOT TO CONSIDER

At Fairman Group, we are not trying to damper your enthusiasm. It's our job to dial up your awareness of all things financial.

How do we know so much? The collective experiences of people we've helped and forewarned over the years. If you have been pondering your Next Nest and want to avoid surprises by making well-informed decisions about your wealth, reach out to the Advisors at Fairman Group Family Office.