

8 Things to Consider Before Buying Your Aging Parent's Home

The “great wealth transfer” is set to take place over the next two decades, when baby boomers (the wealthiest generation in American history) will pass \$30 trillion down to younger generations. One common asset many aging parents will look to transfer or sell is their home, especially if they feel compelled to downsize or need to move due to declining health. If you're planning to purchase, transfer, or inherit your parent's home, there are many factors to consider. Here are eight things to think about to make the process smoother and less taxing—both emotionally and financially.

Personal Considerations

1 Your parent's wishes.

Regardless of how many years your parents have spent in their current home, it's made up of so much more than floors, walls, and windows. Any family home comes filled with memories and emotional attachments, so your first consideration should be your parent's wishes and feelings about passing down their property. Communicating openly about their preferences and needs will help them feel supported in their decision, set the stage for a smoother transition, and help align your family members' expectations.

2 Family relationships.

If there are other siblings or heirs involved, it's helpful to address their concerns and interests, too. Open communication, transparency, and potentially seeking the assistance of a mediator can help alleviate any conflicts or resolve differing opinions about the future of your family's home.

3 Future plans.

Although sentimental value is a strong reason for many to want to buy or transfer a parent's home, it's crucial to consider the long-term implications. First, do your parents have funds to pay for their care needs, especially if they will be moving to a nursing home or assisted living facility? Do they have enough income for rent if they're downsizing? Also, do you have the funds to maintain the home? If it's a multifamily home or has rental units, are you prepared to be a landlord? Consider future scenarios before you finalize the decision. You may want to consult a financial advisor for guidance.



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Financial Considerations

4 Tax implications.

One of the biggest concerns when transferring or purchasing a home is the potential tax liability. Depending on the value of the property and the circumstances of the transfer, there may be gift tax, estate tax, or capital gains tax implications to consider. It's important to consult with a tax professional to understand the specific tax implications of any transaction, explore strategies for minimizing tax liabilities, and ensure compliance with current tax laws.

5 Impact on benefits.

Transferring or selling a home can also affect eligibility for certain government benefits, like VA pensions or Medicaid. This is because these programs have strict asset and income limits, and transferring or selling a home can affect those limits and, therefore, impact qualification for those benefits. Consult with an attorney or financial advisor who specializes in elder law to understand the potential impact and explore options for protecting these benefits.

6 Avoiding probate.

Probate is the legal process of distributing a person's assets after they pass away, and it can be time-consuming and expensive. One option for avoiding probate is transferring the home into a living trust. This way, you can ensure a smoother, simpler transfer of ownership after your parents pass on, minimizing the burden on their heirs. There are several types of trusts, each with its benefits and drawbacks. It's important to consult with an estate planning attorney to determine which type of trust is best for your specific situation.

7 Cost considerations.

In addition to the tax considerations, it's important to budget for mortgage rates, closing costs, transfer fees, appraisal fees, and the expense of ongoing maintenance.

8 Elder care.

Many families are afraid they need to sell their parent's home to cover the costs of long-term care, but this may not be true. There are alternatives to selling, such as accessing home equity through a reverse mortgage or purchasing insurance for long-term care expenses. Careful financial planning, possibly with a professional, can help preserve the family home while addressing the financial demands of care.

Transferring or purchasing your aging parent's home can be a complex process, with many legal and financial considerations to keep in mind. By working with qualified professionals, such as attorneys, financial advisors, and tax professionals, you can ensure that the process is done correctly and in the best interests of all parties involved.