**Financial Planning For The Snowbird**

You’re tired of the cold and snow. You want to retain a home up North but want to winter down South. Is being a snowbird in your future?

Having just gone through the process myself, I can report that “snowbirding” is both *gratifying* and *terrifying*. If you want to get more of the former and less of the latter, planning is the key. By analyzing your situation and understanding the process, you can set up your new nest and enjoy flying the coup when the snow flies. However, if you’re just tired of the snow and impulsively buy a second dwelling in frustration, you may be in for a personal and financial shock. Snowbirding means having a second residence, not just arranging an extended vacation. Given this reality, it’s wise to consider the planning opportunities for becoming a snowbird.

Each family has their own special situation, but there are a common set of issues to address in making a workable plan. Let’s start with the three big-picture questions: location, rent or buy and business or personal.

**The Three Big Questions**

**LOCATION?** There is an adage in retirement planning that you shouldn’t retire where you like to vacation. The same goes for a second home. I enjoy camping in the Everglades in the winter, but these uninhabited Keys would make a lousy winter residence. Practical considerations must apply in making the snowbird location decision. Will you have adequate access to medical coverage, airports and facilities? Is there workable housing? Can you develop a social network? Bottom line: is this a location where you will be able to live for an extended period if needed?

**BUY OR RENT?**  It’s one thing to use Airbnb or VRBO for an extended stay in a beautiful getaway destination. However, you may tire of living in someone else’s home and calling it your own. It’s an entirely different step to establish a permanent snowbird home. This involves putting down your own stakes. For a second home, the primary question is whether to buy a residence or take on a long-term lease. Finances dominate this decision, with the usual issues concerning mortgages, taxes, insurance and cashflow. A common approach for the undecided snowbird is to lease at first and then buy later. Recognize, however, that unless it’s a rent-to-buy scenario, this approach will require moving from one residence to another.

**BUSINESS OR PLEASURE?** Many potential snowbirds plan to cashflow the expense of a second home by renting it out when they’re not there. While this looks good on paper, proper planning demands thinking through the details. The best approach is to frame the analysis in terms of business or pleasure. To get the income and tax advantages of renting out the house or unit, the owner must be willing to take on added expenses, liability and, frankly, hassles. This means that although your snowbird residence is for pleasure when you’re there, it becomes a business when you’re renting it out. Cleaning, maintenance and insurance are all among the additional costs associated with renting to others – even if only for a few weeks per year. If these burdens are worth it from a financial perspective, that’s great. But assume they are *not* worth it as a quick and easy way to pay for an additional home.

**Five Things To Consider**

Once you have a handle on the Three Big Questions, it’s time to delve into more details. While a number of states fit into the classic definition of a snowbird destination, I’ll use Florida as an example of a target jurisdiction. And as an owner of a second home in Florida myself, I can confirm that there are plenty of snowbirds flying around in this state.

**LEGAL**

Each state has its own property and estate laws, and the differences among the states is substantial. For example, Florida is a common law state for property ownership – different from community property snowbird states such as Arizona, Texas and California. This distinction can have consequences when there is a death, divorce or sale. It’s important to have a clear idea where the funds for the property are coming from and how the secondary home’s title will be designated. As will be discussed below, a key issue in making these decisions is whether the snowbird property will be your primary residence – your “domicile.” This decision affects financial concerns such as homesteading and taxes.

Another area of the law to consider is estate planning. With some fairly easy steps, you can prevent a messy hassle for your estate and heirs when you die; specifically, you can avoid the time and expense of ancillary probate. In Florida, ancillary probate is required for the death of a nonresident who owns real estate located in Florida that is titled in their name. This expensive process can be avoided by working with your attorney in advance to title the property in a living trust or in a separate entity such as an LLC.

And while you’re helping your heirs avoid hassles, it’s also a good idea to have your attorney update your estate documents. Although you can have only one last will and testament, you can have other documents such as a power of attorney and an advanced directive for multiple states. If you get sick while in your snowbird home, having your Florida-drafted documents available will avoid disputes and delays. Your loved ones can make decisions for you immediately rather than going up North to get documents that may have to be proven to a court down South.

**TAX**

The biggest tax issue in the snowbird decision involves where you consider your domicile. In addition to impacting whether or not you pay a state income and/or estate tax (for example, New York has both taxes while Florida has neither), it can also affect your federal taxes because of the recent cap placed on the deductibility of state taxes (the so-called $10,000 State and Local Tax (SALT) limitation). This tax motivation was most recently exemplified by President Trump’s declaration that he’s switching domiciles from New York to Florida.

You can have multiple residences, but just one domicile. Residence means living in a particular locality, but domicile means living in that locality with the intent to make it a fixed and permanent home. And while establishing your domicile is not necessarily as easy as living in one place a half year and a day, there is a workable process for changing domicile to your snowbird residence if that’s your intent. You’ll want to make sure that you address the domicile issues of both the snowbird state AND your other state. New York, for example, will not automatically accept change-of-licenses and half year out-of-state residency as proof of changed domicile; so if you have a residence in New York and are physically in the state at least 183 days, then the state may try to tax your worldwide income.

So first, make sure you that you *really*want to change domiciles. It affects where you have your licenses, voting registration and other services. A recent court case even hinged the determination of domicile on where a family had their dog registered. If you do want to switch domiciles, get some qualified advice and document everything. Several tax-heavy northern states have become aggressive in challenging changes of domicile, and because of digital technology, their means for proving physical location has changed dramatically.

**INSURANCE**

Every state has its own peculiar insurance issues. Florida, for example, can be a tricky place to obtain homeowners coverage, and it may necessitate purchasing flood insurance. Hurricanes in the low country will do that.

Another insurance consideration is health insurance. Snowbirds sometimes ignore this issue and are shocked when a visit to a doctor in their new locale generates a huge out-of-plan expense. Additionally, doctor visits often don’t qualify as emergency care. In particular, retirees who are on Medicare should take a hard look at this issue during open enrollment. Because of geographic coverage, retirees may need to switch out of their Medicare Advantage Plan to a Medigap approach or change their Medicare Part D to reflect the availability of local pharmacies.

**CASH FLOW**

The snowbird’s plan should acknowledge the fact that many living expenses will double. You’ll need furniture and appliances in both residences. Even bedding, clothing and toiletries can double up costs. And while you’re gone, the lawn won’t mow itself. Cable, wi-fi, health clubs and other service providers may or may not be willing to provide shortened-year memberships. While all of these increase your annual cash outlay, the good news is that it doesn’t have to increase the bookkeeping associated with owning two residences. There are numerous automated approaches to addressing the administrative burden of added living expenses. Stamps, envelops and snail mail need to give way to e-pay, Automated Clearing House (ACH) transfers and other on-line services. The idea of snowbirding is to enjoy a second residence in a warm area, not double up on the paperwork associated with owning a home.

**OTHER THOUGHTS**

The snowbird is typically trapped between two compelling emotions: “*I want to get away from it all!*” and “*there’s no place like home!*” Before making the big plunge into having two residences, it would be wise to examine the unique aspects of your particular situation. Then you can truly determine if snowbirding is for you and how you’re going to accomplish it. Below are some examples of questions that you may want to address as part of your decision-making process. Hopefully this will lead you to asking – and answering – additional questions.

-        *Transportation* – how will I get myself and my possessions from one residence to the other? Fly, drive or ship?

-        *Pets* – I may be mobile, but are my pets?

-        *Security* – do I need ADT, Ring, Nest or some other technology to make sure that my property is secure from burglary, floods and power outages?

-        *Maintenance*– what are the “whos” and “hows” of making sure both residences are maintained while I’m away?

-        *Family*– will I be able to see my family if I’m splitting residences? Will they come to see me?

-        *Social Network*– how do I stay engaged and involved with others when I’m only in town a few months a year? How do I set up a new social network in my second residence?

Is snowbirding for you? If your employment situation allows, start out with an extended stay at a target location. And if that works out, try again the next year, but for longer. If this approach doesn’t work with your work requirements, at least use your vacation time to kick the tires on a new location. While you’re deciding whether snowbirding is for you, make a plan. Answer the Three Big Questions and start sorting through issues involved in having a second residence. And don’t forget to enjoy the journey.

<https://www.forbes.com/sites/steveparrish/2020/01/14/financial-planning-for-the-snowbird/?ss=retirement#67b17f967467>