Retirees should look carefully before leaping into a relocation

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Many people dream of fleeing to cheaper and warmer climates in their retirement. Advisors caution, however, to watch for unexpected financial and non-financial consequences.

Taxes. The first thing to emphasize with clients, said Roger Ma, certified financial planner and founder of financial planning firm lifelaidout, is not only their new home state's income taxes — if there are, indeed, any — but all its other taxes, such as property taxes, sales taxes, inheritance and estate taxes.

"Oftentimes if there are no state income taxes, the state will need another revenue source," he said.

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Marianela Collado, CPA and CFP with Tobias Financial Advisors, warned retirees against creating more state taxable income by keeping municipal bonds from a former resident state that would become taxable in the new resident state.

Furthermore, it is critical retirees understand the difference between a residence (where you live) and a domicile (where you intend to return), she said.

For example, Collado said, New York would be quick to challenge a change in domicile if retirees are just spending half the year in Florida and everything that is near and dear to them, such as doctors and charities, is back in the Empire State.

"When assisting clients with making a clean break from their current state of residency to their new location, it is critical to dot the I's and cross the

T's and at least be prepared for a potential audit," she said. "If you're not careful, you could find yourself in a worse situation – taxed by two states."

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Real estate expenses. Real estate–related costs can be higher than expected, according to Collado. "In Florida, insurance is a biggie," she said. "Due to hurricanes, homeowner premiums could be in the thousands [of dollars]."

In fact, a recent report from the National Association of Insurance Commissioners showed Florida's average annual homeowner insurance premium is more than $2,000. (Click here to download the report.)

Furthermore, an apartment in a retirement community could be affordable, but the monthly homeowners association fee could be more than $1,000, Collado noted.

Watch out for other steep condo expenses, said Michele Clark, CFP and founder of Clark Hourly Financial Planning and Investment Management.

If you overlook these tax deductions and credits, you will end up overpaying Uncle Sam

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"Make sure that the HOA can afford to maintain the property and will not have to make large assessments once you are a homeowner," she said. "And to avoid large home maintenance expenses ... make certain that you are not buying a home constructed with defective drywall that was imported from China" between 2001 and 2009. (Use of such imported construction material led to environmental hazards in as many as 100,000 homes in 20 U.S. states.)

It's important to plan ahead and think through potential expenses, Clark said, such as real estate sales commissions, costs to prepare a home for sale, purchase of a home warranty, potential repairs resulting from a home inspection and moving expenses.

Ma, of lifelaidout, pointed to other real estate considerations. "Do you need the money from the sale of your house?" he asked. "Do you have capital gains? Do you need to rent out your house and leave it to your heirs?"

Non-financial issues. "Tying in the non-financial aspect with the financial component is critical," said Collado of Tobias Financial Advisors. For example, "a golfer would enjoy retirement in a golf community … [but] the trick will be to pick one that fits all their needs and … have their portfolio last well into their 90s."

Rand Spero, CFP and president of Street Smart Financial, said that "the real success of a move involves much more than economics and taxes." He pointed out several non-financial trade-offs to consider when evaluating a distant move in retirement.

1. Quality of medical care: Spero cited a client who was so dismayed at the medical care available in her new, warmer-weather location that she kept all her doctors back in Boston. "This forced her to fly back and forth for medical exams or treatment, which involved considerable expense and time," he said. "As she got older and travel was difficult, taking these medical flights became problematic."
2. Quality of elder care and social services: Another of Spero's clients needed particular social service support for her special-needs child, but it was not adequate at her new location.
3. Culture fit: This has a big impact on comfort with the move, Spero said. He recalled a client who loved the views and amenities of his new condo complex in a warmer climate. However, he felt disconnected from his neighbors and complained he seldom had things in common with them.
4. Proximity of family: Moving to a warmer location when family members are not nearby can be problematic if assistance is needed, Spero said. He recalled a retired couple who moved to a less-expensive location. "As they got older, some daily living matters became harder for them to handle," he said. "They relied on their daughter and her family who were far away and could not provide the trusted assistance they required."

Spero added that, in his conversations with relocated retirees, their non-economic concerns often tend to dominate the discussion.

— By Deborah Nason, special to CNBC.com