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Comment & Insight

Getting real about the house

A recent survey suggests Canadians are caught between low savings and unrealistic attitudes about tapping into their homes

By Tom Hamza | March 2013

Whether canadians are setting themselves up for a retirement shortfall is a topic frequently discussed in these pages, but new research from the Investor Education Fund (IEF) reveals a new aspect of the looming retirement-income crisis that may have important implications for financial advisors.

According to IEF's study, Canadians approaching retirement are deadlocked between savings that are inadequate to meet their needs and rigidly unrealistic attitudes about tapping into the financial potential of their homes.

The research was conducted for IEF by the Brondesbury Group via a national online survey of 1,500 current and former homeowners who were 50 years and older; some respondents were retired already. The survey found that 41% of Canadian homeowners were unwilling to consider downsizing, selling or renting their principal residence, or using their home to fund their retirement in other ways. However, it is questionable whether a large percentage of homeowners have sufficient resources to support their post-work lives without additional income sources.

One-third of households surveyed didn't believe they have enough saved for retirement; one-quarter weren't sure. Of significant concern is that about one in eight households had no access to the most common sources of retirement income: an RRSP, a registered retirement income fund (RRIF), a company pension plan or an annuity. Two in 10 households didn't know how much they have saved for retirement, while 40% said their savings are less than $100,000; only 20% had more than $250,000.

Perhaps most alarming, 25% of homeowners surveyed expected to have debt on their principal residence at retirement, with a median debt of $71,000. Of this group, 50% expected to pay the debt from their retirement income, and 25% didn't know how they will pay it off - which compounds the strain on already insufficient resources.

Regardless of financial status and assets, 50% of households believed they will exhaust their retirement savings within 10 years of retiring.

When asked about using their home equity to fund their retirement, 50% of people surveyed said they had never considered the possibility of selling their homes for this purpose. Yet, paradoxically, homeowners who didn't think they have enough retirement savings were less willing to consider any option that involves selling their principal residence (35%, vs 41% overall).

Those who exhibited greater receptiveness in their approach to home ownership as retirement funding were most willing to downsize and invest the difference (37%). About 25% of homeowners were amenable to selling, renting and investing, closely followed by getting a home equity line of credit. Renting part of a home got limited support (13%), and reverse annuity mortgages were the least appealing option.

Although many Canadians expect their retirement funds to last only a decade and are so attached to their homes that they will resist selling them for retirement funding, about 40% of those surveyed said they expect they will be forced to sell their houses in the future because of limited mobility or illness.

The deep connection between those surveyed and their homes is related to "quality of life" considerations:

- Six in 10 said, "Staying in my home is critical to my quality of life."

- For one-third of those surveyed, the barrier to selling a home was: "Leaving my home to a loved one is important to me."

Yet, there was a sizable minority who held a more realistic outlook, with 25% of respondents saying, "I will use the value of my home to fund my retirement" and "At some point, I will have to sell the house to get enough money to live on."

With so much research (from multiple sources) showing that many Canadians are ill prepared for retirement, advisors can seize on one particular finding to help guide their clients along a more realistic planning path. The survey found that one in six (about 17% of) respondents said they would rethink their retirement plans as a result of having taken the survey.

The implications for advisors are clear: to make a meaningful difference for future retirees, this cash-flow challenge must be addressed as early as possible. Advisors are at the forefront of educating their clients about how to make optimal use of all of their assets and turn investments into sustainable cash flow that is balanced against the clients' life goals.

Sharing research and information leading to sound decision-making can be an effective strategy for formulating better retirement plans and changing financial behaviours overall. It's likely that when confronted with hard facts, clients' unrealistic views will change. It is the IEF's hope that this shift to more realistic retirement planning takes effect long before people leave the workforce.

The full research report is available at *www.GetSmarterAboutMoney.ca*.

Tom Hamza is president of IEF, a non-profit organization established by the Ontario Securities Commission.

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