Now More Than Ever:
A Home Isn't a Retirement Plan

Summer is the season for home sales. With real estate prices rising substantially over the past decade, it may be tempting to see your home's value as a potential source of retirement income.

When supporting clients in planning for retirement, it's generally not recommended to consider a home's value as a primary part of that plan. Some homeowners opt to downsize as a way of unlocking retirement funds, while others may look to borrow against their homes. However, there may be significant reasons to exercise caution in relying on home equity to fund retirement, especially in light of prevailing market conditions:

Fewer seniors are moving — What if you eventually decide not to sell your home? According to a recent CMHC report, seniors are now less likely to sell their homes before the age of 85. In fact, the sell rate among those aged 75 and older has been trending downward since the early 1990s, falling to 36 percent between 2016 and 2021, down from 41.6 percent between 1991 and 1996.[1] This may not be surprising. For some, selling a lifelong home may be more emotionally difficult than anticipated. Many seniors remain in their dwellings to stay close to family, friends or their community and to maintain their sense of independence. Some have instead chosen to "downsize from the inside" — using only a portion of their homes, such as the ground floor, to reduce costs such as heating.

Low housing supply — Even if you do plan on downsizing or renting, will you be able to find suitable accommodation? While selling a home in this market may not be difficult, finding an appropriate alternative may be challenging given the constrained housing supply and tight rental market.

Moving can be expensive — Consider that the costs associated with moving homes may be higher than many anticipate: real estate fees, lawyers' fees, land transfer tax, staging and other expenses can add up to be significant. There may also be other unanticipated expenses that come with a new dwelling such as maintenance, renovations and, if you end up in a condominium unit, monthly management fees. All of these costs can erode the net financial gain by downsizing.

Higher interest rates — Recent reports suggest that about 25 percent of retirees still carry mortgages as individual wealth has shifted to real estate.[2] Many mortgage holders have seen their mortgage interest rates reset at higher rates over recent times, leading to lower disposable income, especially for those on fixed incomes. While it is possible to access home equity for retirement, consider that with rising interest rates this has become much more costly. Reverse mortgages, which are not common in Canada, may allow you to borrow against your home equity (usually up to 55 percent) with minimal proof of income. However, reverse lenders can charge substantially high interest rates, and there are few large providers. More commonly, a home equity line of credit (HELOC), which is often best secured prior to retirement when income is high enough, allows you to draw on the line as needed and pay interest only on what you borrow.

These are just a handful of reasons to exercise caution when considering home equity for retirement. For a deeper discussion on this, or any other aspects of retirement planning, we would be happy to assist.

1. "Canadian seniors not downsizing, partly owing to lack of options," S. Peesker, Globe & Mail, Feb. 12, 2024; 2. "Wealth tied up in real estate can hurt your retirement," R. Carrick, Globe & Mail, Nov. 30, 2024, p. B10.

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