Home sweet home or nest egg

This article has been brought to you by the BMO Retirement Institute. The BMO Retirement Institute was established in 2008 to provide thought provoking insight and financial strategies for those individuals planning for, or currently in, their retirement years.

Over the next twenty years, more than 9 million boomers will be retiring. Many have spent their working years accumulating as much savings as possible to fund the next phase of their life: Retirement. These Canadians are considering all assets on their personal financial balance sheet as possible sources of income in retirement. For many, their principal residence takes up a lot of real estate on their balance sheet – pardon the pun. Canadians seem to have a love affair with home ownership. Traditionally the home has been viewed as a shelter, but many may be torn between a popular "home is my castle" mind-set and, increasingly, relying on it as a retirement asset fuelled by the boom in the real estate market.

To downsize or not

A recent BMO Retirement Institute report raises awareness of the potential challenges facing boomers' who are home owners. According to the Institute's survey, 'living comfortably in retirement' and 'owning a home' were considered important financial accomplishments to achieve over one's lifetime. In fact, it's no coincidence these goals ranked so high when Canadian boomers stated their home comprises 51% of their total net worth and 41% considered building equity in their home as an option to save for retirement. This suggests that many Canadians could be considering downsizing their home as they approach retirement.

Benefits of downsizing

What does your home represent to you? Is a significant part of your wealth tied to your home? If so, you could consider selling your home and buying a smaller property (financially that is) to free up the equity in your home and increase the size of your retirement nest egg. Downsizing your home can help stretch your retirement budget by reducing certain expenses; you probably won't require the maintenance involved with larger backyards and multiple bedroom homes.

If you are like most boomers, you probably purchased your home with your family and employment in mind. Upon retirement, however, your choice of where to live will no longer be based on such factors as proximity to work or to your children's schools. The type of dwelling and proximity to healthcare are two new considerations to keep in mind at this stage in life. Although health matters may be hard to predict, it is important to think about a home that supports you while you age in your home. A change in location is not to be taken lightly. It is important to take the time to evaluate its impact on your day-to-day activities and social interactions as it can determine the lifestyle you will lead.

If you will be carrying a mortgage in retirement, one of the benefits of downsizing to a less expensive home includes the possibility of reducing or eliminating your mortgage and also removing the added stress of debt obligations when transitioning to living on a fixed income in retirement.

Downsizing Considerations
• Could you retrofit your current home for retirement?
• If your current home is no longer practical, where else might you consider living?
• What if you move to a new neighbourhood and it doesn't meet your expectations? Consider renting before buying, to see if you like the new neighbourhood.
• Will you still be close to family and friends and have adequate social support?
• Do you want to be responsible for the upkeep and maintenance of your property?
• If you become ill or start having mobility issues, will you be isolated in your current or new location?
• Where are your main service providers located (bank, doctor, hairdresser, grocery store). Will a change in location add inconvenience?
• What are the financial costs and savings of moving or staying put?

Mortgage-free in retirement

According to the BMO Retirement Institute, another important financial accomplishment is to retire debt-free. Meanwhile, a significant number of Canadians approaching retirement carry mortgage debt – a serious issue given the reality of living on a fixed income after leaving the workforce.

There are several options for homeowners to manage household finances and become mortgage-free sooner.

First, consider a shorter amortization; the shorter the life of the mortgage, the less you pay in interest. In addition, a shorter amortization means that you can become mortgage-free faster and begin saving more for retirement. Make sure you can afford what you purchase and stress-test your financial budget using a mortgage payment based on a higher interest rate. Your total housing costs (mortgage payments, property taxes, heating costs, etc.) should not consume more than one-third of household income. Secondly, making a larger down payment is another way of paying less interest over the life of your mortgage. Furthermore, if you make a down payment on a principal residence of at least 20%, you avoid paying mortgage default insurance. Make pre-payments when you can, pay weekly or bi-weekly instead of monthly. Finally, increasing your mortgage payment (principal and interest) can result in paying off your mortgage a lot sooner.

Becoming mortgage-free faster
1. Consider a shorter amortization
2. Make a larger down payment
3. Make pre-payments when you can
4. Increase your mortgage payment

We understand that your home is an important emotional and financial asset. Contact your Investment Advisor to discuss what your home means to you as you prepare for your retirement.

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