

# Part Five: No savings? Home equity can be a good Plan B

Financial planners may disapprove of making home equity the key to a retirement strategy, but for a lot of people, especially those who own homes in high-priced Metro Vancouver, it makes a heck of a good Plan B.

“If you own a home in this market,” said West Vancouver realtor Dave Watt, “you can’t say you don’t have any retirement options. You do.”

Watt, who frequently works with seniors who are downsizing, said more real estate sales than people admit are, if not financially driven, then at least financially influenced.

“People try to convince their friends and neighbours they’re moving for lifestyle reasons. They want to be able to close the door and go travelling, that sort of thing. But the fact is they’re house-poor — they have no cash, and they need the capital from their house.”

Usually they get it — most reinvest only about 70 per cent of the selling price in a new place to live. With seven-figure values common in West Vancouver, the 30-per-cent remainder adds up to a lot of cash.

But to Watt, the lifestyle considerations are important, too — as are some broader societal issues.

“Aging in place has become something society believes people are entitled to do. We believe it’s a wonderful thing.

“But I can tell you — and any realtor who’s been around more than 10 years will confirm this — that older people, especially when they become widows or widowers, can become prisoners to their house. They don’t engage with their contemporaries, because their contemporaries have either died or they’re in a condo or a care home.

“It has also created a supply-side problem in neighbourhoods that used to be vibrant with little children. Well, the little children’s families — whether they can afford it or not — can’t buy into this neighbourhood if we, as a society, enable people to stay in a place 10 or 15 or 20 years longer than they should.”

Still, Watt often provides counsel that allows aging seniors to remain in their own homes — though not necessarily their old family home after it has become too much for them — longer than they might otherwise be able to do.

One of the best options, he said, is to defer property tax — an option the provincial government offers at a low and non-compounding interest rate. And it frees up, depending on the value of the home, at least \$100-plus a month — and for some people, several hundred a month.

A reverse mortgage, on the other hand, is almost always a very bad deal — at best a desperate last resort, Watt said.

A high and compounding interest rate can chew through the value of a home in little more than a decade. Thus, while homeowners can stay as long as they are able, they may have nothing left to reinvest or to live on if they're forced to move to a smaller home or into care.

For a senior who is running low on money late in retirement as the frailties of old age set in, Watt said a conventional line of credit can be a much better option. If secured by a home, the interest rate is low and applies only to any funds that are actually drawn.

Most seniors in such circumstances need only a few thousand extra dollars a year to bring them up to a good comfort level, he said. So the debt doesn't accumulate quickly, and usually it's no more than — perhaps less than — the increased value of the property over the time span of the loan.

Jeff Capling, a senior financial planner at Vancity, said when people do sell their home to free up capital, it's important to think about the tax implications of their new investments.

Tax-free savings accounts, to the extent the investor has unused room, fully protect the returns on investment from tax and benefit clawbacks, he said. Other types of investments, such as corporate class mutual funds, may also offer tax advantages.