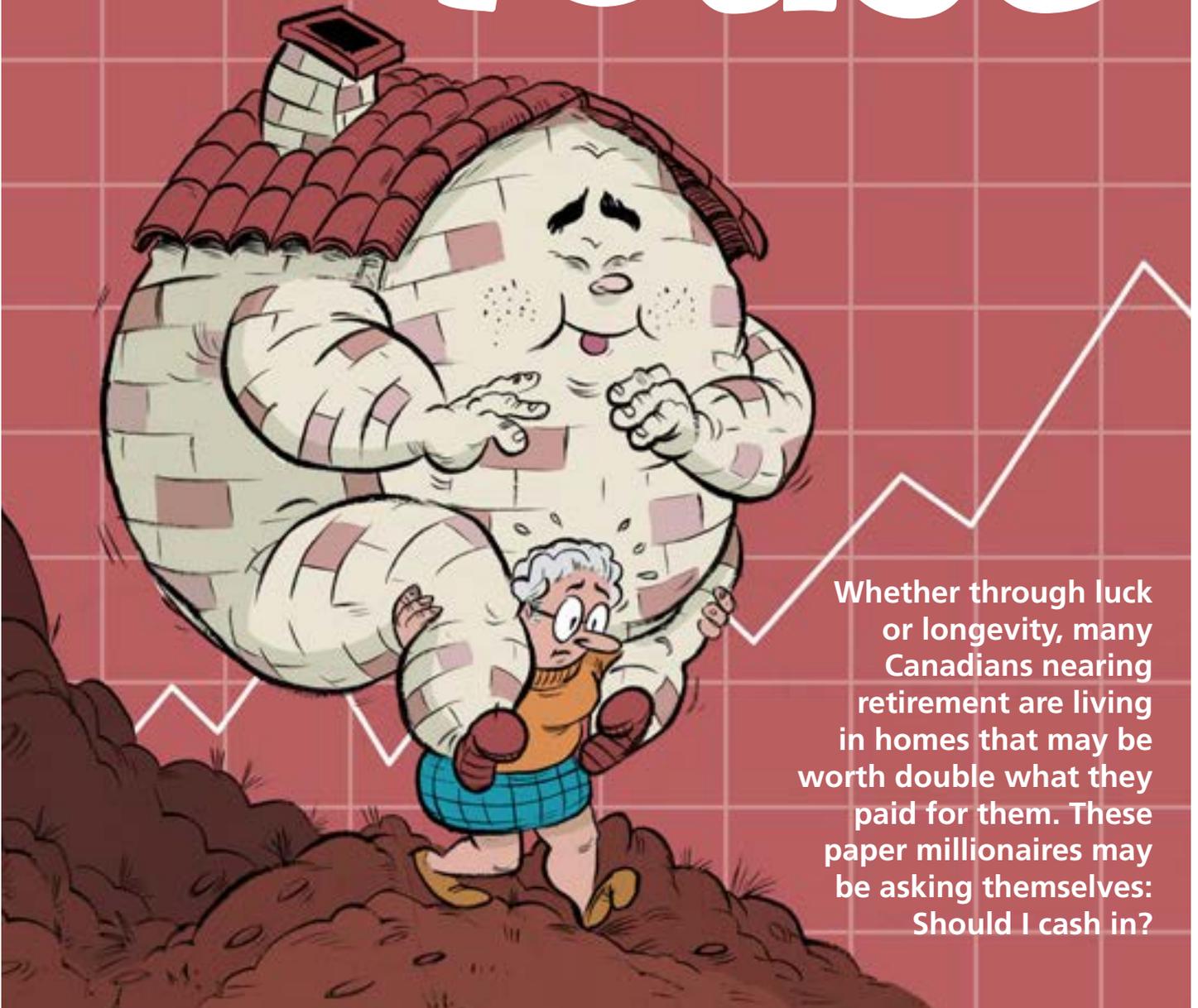


# me and my BIG FAT HOUSE



Whether through luck or longevity, many Canadians nearing retirement are living in homes that may be worth double what they paid for them. These paper millionaires may be asking themselves: Should I cash in?

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**S**ometimes Raina\* thinks she'll sell her home. When she hears how much other houses in her area are going for — potentially double what she paid for hers — it's hard not to wonder what's possible.

Sometimes a little voice inside her head tells her the smart thing to do is keep it forever. She admits to feeling conflicted.

She sees her retirement on the horizon and thinks, if she downsizes, what she could get for a sale may set her up for the rest of her retirement. (**Sell!**) But then she thinks; her house could be worth so much more in five or 10 years. (**Keep!**) But will real estate prices really keep rising? (*Hmmm.*) Then she considers, she's just getting by and her children's university fees are slowly putting her and her kids in debt. (**Sell!**) But if she sells the house, where will the kids live if they don't get jobs immediately? (**Keep!**) And if they do want to buy condos, where can her kids go for help with a down payment? (**Sell!**) Raina's own parents are aging and she ponders if they might have to move in with her someday. (**Keep!**) But she doesn't want to be shoveling the driveway or climbing stairs in 10 years. (**Sell!**) Maybe she needs to use her home to cover her own medical expenses down the line (**Keep!**).

Raina can be forgiven for being at a crossroads over what to do with her house. If you are lucky enough to own a home in most urban areas of Canada, you may have benefited from higher real estate values over the past 15 years. And while rising values may have slowed a touch in the Toronto and Vancouver areas, few topics are hotter than house prices in these cities. From water cooler chat to unsolicited visits from real estate agents, to the constant media speculation on where prices might go, homeowners know they can be the benefactors of a real estate boom.



**45%**

Percentage  
aggregate increase  
in the MLS Home  
Price Index across  
Canada over the  
past five years.<sup>1</sup>

Consider the stats: As of July 2018, across all home sales in Canada, the MLS Home Price Index (Aggregate of Major Markets) grew 45 per cent over the past five years, while the Greater Toronto Area Index grew by 62 per cent and Greater Vancouver grew 79 per cent.<sup>2</sup> The longer-term numbers are more impressive: The GTA saw house prices gain 119% on average from 2007 to 2017.<sup>3</sup>

Yet, the big fat elephant in the room might just be what to do with that big fat house. Where does a home's value fit into your retirement equation, especially when you're looking at possibly doubling the money you paid for it if you sell down the line? If the real estate market has made you a millionaire (if only on paper) does that mean you are now free of financial worries? Or does the windfall just make things more complicated?

Here are some questions on Raina's mind and some things to think about if you're in a similar situation.

***How does the increased value of my home impact my retirement plans?***

Sandra Bussey, VP, High Net Worth Planner, TD Wealth, says that people may be able to enjoy the potential benefits of a boom in real estate but should consider not letting your home's value blind you to financial planning basics or to the possible resulting complications of a high real estate environment. Yes, complications. Higher house prices can mean more money in your pocket when you sell, but it may also mean higher rents or purchase prices in the event that you're looking to downsize, even in markets far from an urban centre.

**\$1,848.73**

Maximum cost of long-term care bed in Ontario per month.<sup>4</sup>

***Can I afford to retire earlier or to live a better lifestyle because I can count on my home's value to sustain my retirement?***

Steve Inskip, Associate VP, TD Wealth, says that the time of retirement is a personal decision based on where

people are in their life, their career, how their health is and what their goals are for the next stage of life. He points out that regardless of the value of a home, stopping a regular salary and living on savings can mean more money going out than in, and that factor may have a greater impact on retirement. He says people shouldn't make such a decision to keep or off-load the big fat house without considering the other factors that may make retirement successful, such as having the ability to pay bills well into old age or leaving an inheritance for your children.

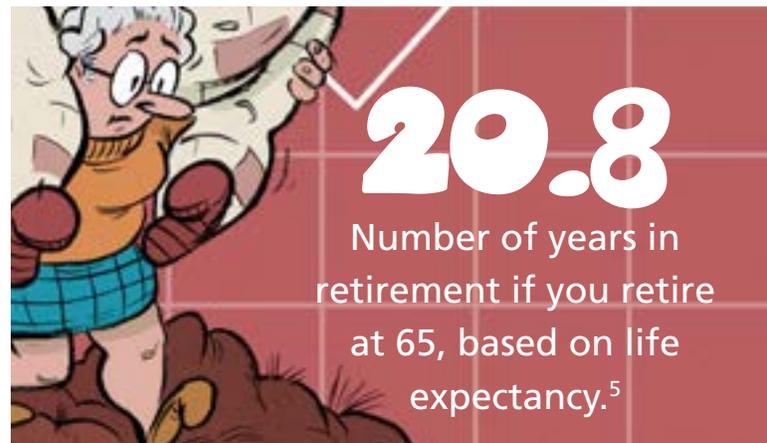
***My home has turned into a valuable — and growing — asset. Is it unwise to sell if its price tag continues to increase?***

Inskip says people can enjoy the potential benefits the real estate market can bring, so long as they don't carry false assumptions that might sweep away other concerns. He mentions that

people may want to consider not pinning a future sale value on a home or basing a retirement strategy on a single asset, pointing out that national and local markets fluctuate, interest rates can rise and broader economic themes or government regulations can interrupt rising house prices. He also notes that people may want to consider not hanging onto a home if it makes sense to sell — such as if you're in your senior years and you can't keep up with the maintenance of the home.

***I'm not ready to sell my home but I would like some more cash now. Is it a good idea to use a line of credit? Go into debt but pay it off when I do sell?***

Bussey offers a good general rule that people can consider and that is to try to enter retirement debt-free and not let funds earmarked for retirement pay for the expenses from your working life. She says those who have access to lines of credit should keep in mind that it isn't like an ATM; borrowing money isn't free and if you're already in debt, borrowing more money isn't



likely to make the situation better. But she says that as long as other aspects of your financial plan are sound, and you have robust financial goals, using a line of credit may help ease the house-rich/cash-flow-poor syndrome in the short term.

***Downsizing to a smaller, less expensive home seems straightforward. Am I missing something?***

Bussey says that downsizing to a smaller home, perhaps in a less expensive market, is a course many homeowners take but several factors outside of the financial process should be considered. Selling the beloved family home with its memories may be an emotional undertaking, so the family should make sure they sell only when they feel ready. Moving into a new neighbourhood or town and making a potential profit on your old home may seem like a simple money transaction. Yet leaving friends and familiar surroundings, not to mention doctors and healthcare professionals who know your history, is something people should weigh carefully, especially in your senior years. Most urban areas have access to hospitals and medical specialists but moving to a smaller town may take you country-miles away from the healthcare you need.

**47%**

Percentage of Canadians 40 years of age or older planning to retire on their own, who feel at-risk of outliving their retirement savings.<sup>6</sup>

***I've got a home that's benefitted from high real estate prices, but I know my kids have got the short end of the stick. Even if they are successful, it seems like you have to be wealthy just to buy a middle-class home in a major city these days. Can I help them?***

Bussey says that for the major centres of Toronto and Vancouver, the markets have changed and people may have to set their expectations lower for homes, while outside these areas, there may be more flexibility.

For parents wanting to help out their kids with a down payment or other large purchase, there

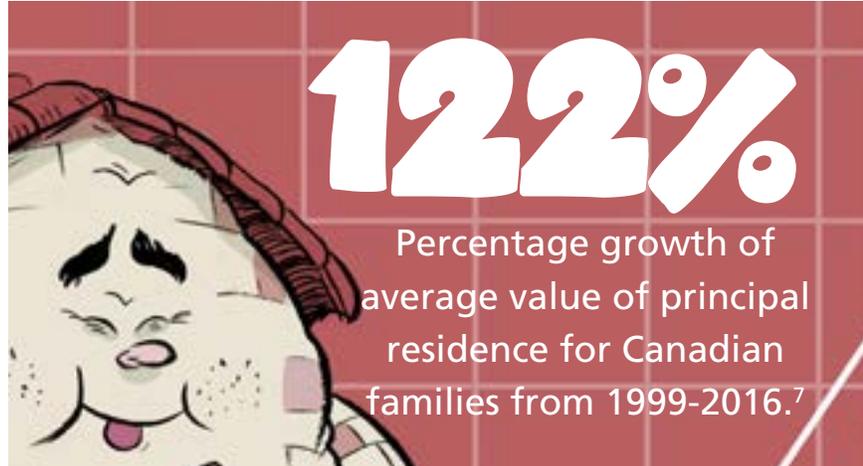
are several options to consider when transferring wealth, such as gifts, loans, or trusts, each with a different level of control over your funds on your part.

But careful consideration should be given to this process, Bussey says, because if you just give money away, it can be hard to get it back and you might end up needing it for yourself down the line. Helping out your kids is a great sentiment, but how much you give them, when and under what conditions, should be part of an encompassing financial and estate plan.

***I'm healthy now but I see elderly relatives who are costing their kids a fortune for healthcare and supportive housing. I don't want to be a burden to my children but I don't know exactly what to save for.***

Bussey says that one of the things people have to keep in mind is healthcare costs in the future. She says that while basic healthcare is covered in Canada, people should consider how they might pay for other costs like prescriptions, in-home nursing or a bed in a senior's facility. Pre-retirees may look forward to longer and healthier lives for a portion of their retirement but they may also need enhanced care in their declining years, such as a room in a comfortable nursing home. It's with these future costs in mind that Bussey says individuals may wish to allocate the proceeds from the eventual sale of their home to future healthcare costs.

Steve Inskip says directly relating the value of your home to your retirement may be the wrong way to go about making one of the biggest financial decisions in your life. He says that for many people, the increased value of their house can be a boon, but it does not do away with practical considerations such as where to live if you sell or how to fund medical bills.



And a homeowner who has cashed out big in the real estate market might have three kids, each needing help to get into the market.

He says dealing with seemingly unrelated financial items — real estate, retirement, wealth transfer, healthcare — all comes down to having a comprehensive financial plan that looks at where you are now and where you want to go. As everyone's situation is different, an advisor can help you become more informed and help make that big decision whether to downsize a little less complicated.

\*Raina is fictitious.

— **Don Sutton, MoneyTalk Life**

<sup>1</sup>Canadian Home Sales Activity Strengthens in July, Canadian Real Estate Association, Aug. 15, 2018, accessed Sept. 12, 2018, [creastats.crea.ca/natl/index.html](http://creastats.crea.ca/natl/index.html).

<sup>2</sup>Re/Max, Ontario's top 6 housing markets: 2007-2017, accessed Sept. 12, 2018, [blog.remax.ca/decade-in-review-ontarios-top-6-housing-markets-2007-2017/#101947166](http://blog.remax.ca/decade-in-review-ontarios-top-6-housing-markets-2007-2017/#101947166).

<sup>3</sup>Canadian Home Sales, Canadian Real Estate Association.

<sup>4</sup>Long-Term Care Accommodation Costs and Subsidy, Province of Ontario, April 27, 2018, accessed Sept. 12, 2018, [ontario.ca/page/get-help-paying-long-term-care](http://ontario.ca/page/get-help-paying-long-term-care)

<sup>5</sup>Statistics Canada, Table 13-10-0063-01 Life expectancy, at birth and at age 65, by sex, three-year average, Canada, provinces, territories, health regions and peer groups, accessed Sept. 14, 2018. [www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1310006301](http://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1310006301)

<sup>6</sup>Planning to Retire Solo? You Are Not Alone, TD Bank Group, Jan. 23, 2018, accessed Sept. 5, 2018. [newsroom.td.com/featured-news/planning-to-retire-solo-you-are-not-alone](http://newsroom.td.com/featured-news/planning-to-retire-solo-you-are-not-alone).

<sup>7</sup>Survey of Financial Security, Statistics Canada, 2016, accessed Sept. 20, 2018 [www150.statcan.gc.ca/n1/daily-quotidien/171207/dq171207b-eng.htm](http://www150.statcan.gc.ca/n1/daily-quotidien/171207/dq171207b-eng.htm)

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