‘Equity generation’ squeezing retirees’ savings

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Special to The Globe and Mail
Published Friday, Jul. 17, 2015 5:24PM EDT
Last updated Friday, Jul. 17, 2015 5:26PM EDT

Sarah and her husband had done everything right for retirement, squirrelling away savings, paying down the mortgage on their condo and not touching their line of credit.

However, when their daughter ran into financial trouble, they started paying her mortgage as well as other expenses. When their daughter got divorced, they stepped up the support, fearing that their young grandchildren would suffer. First, they paid her mortgage, and when she had to sell her house, they paid her rent. The support went on for at least seven years, completely draining their savings. Sarah – who did not want her full name used – says they eventually took out a second mortgage and maxed out their line of credit and credit cards.

The couple, who’d never missed a bill payment in their working lives, were forced to file for creditor protection. They are depending on a reverse mortgage on their condo while making payments on the second mortgage. Sarah’s husband, also in his late 60s, must work part time in order to make ends meet. Sarah, who is retired, receives a pension from her employer. But they cannot afford trips or fancy meals out. If her husband loses his job, she says they’d “have to sell everything and move somewhere like Newfoundland.”

Their daughter, who is in her 40s, has finally stopped asking for money.

“There isn’t any more money,” Sarah says. “She has to be self-sufficient. We’re okay, but we have to be very frugal now. It’s absolutely not what we had planned. We figured the condo would all be paid for in about 10 years. It just spiralled out of control. I should have been tougher and put my foot down sooner.”

The couple are not outliers, trustee Judy Scott says. Seniors are increasingly running into financial problems. From 2010 to 2014, there was a 20.5-per-cent increase in the number of consumer insolvencies among seniors, according to the Office of the Superintendent of Bankruptcy data.

“It is alarming when you consider that the percentage of seniors in the population will probably continue to grow for at least the next five years or so,” Ms. Scott says. “We are therefore likely to see seniors reach even higher percentages of total insolvencies in the next few years.”

A new Angus Reid Institute survey shows that 74 per cent of people nearing retirement are worried they haven’t saved enough. Of those already retired, 48 per cent are concerned about outliving their money.

Meanwhile, there's a lot of talk about "the equity generation," the great transference of wealth from the boomers to their kids, as parents help out with down payments on houses, or assist with mortgage payments. Urban Futures and Landcor released data in 2012 that showed there's an estimated $88-billion worth of equity tucked away in clear-title properties held by 55- to 74-year-olds, waiting to be transferred to their kids once the parents downsize, if not before. Some parents even take out mortgages to help their kids, or lines of credit, as Sarah and her husband did.

"The first-time buyer is a benefactor of this aging demographic," marketer Bob Rennie told the Urban Development Institute, when he first released the data.

Real estate agent Keith Roy says he sees a lot of millennial buyers purchasing houses with $300,000 down payments that either came from an inheritance or a generous parent. It's routine to see that sort of scenario playing out on the east side, where the median house price for June was at $1.2-million, according to the Real Estate Board of Greater Vancouver.

"The kids are in their 30s, they've built equity along the way," Mr. Roy says. "They have decent jobs and combined incomes of $150,000. They are going to their financial limits to make it happen. Maybe Grandma passed away, left them some money. And there's the bank of Mom and Dad."

But can parents really afford to be throwing money at their kids, particularly when their own earning potential is reduced? Borrowing money to help one's kids is an especially risky proposition, Ms. Scott says.

"Right now, taking on that extra debt seems quite manageable, so it seems like a good decision. However, the parents are responsible for that debt. The cost is going to increase unless they pay it off fairly quickly."

Even if they think they can afford it outright, parents should think twice before giving their kids money for a down payment, Karin Mizgala, chief executive officer of Money Coaches Canada, says. They should question whether their kids even need to buy a house.

"My default position is that it's generally not a good idea to give money to kids for down payments on homes or whatever else," Ms. Mizgala, the Vancouver-based author of *Unstuck: How to Get Out of Your Money Rut and Start Living the Life You Want*, says. "There are a few reasons. Often, parents can't afford it, and also, people don't always do a very good job at their own financial planning. It really is imperative that before handing over money to anyone, you are sure you can afford it. Make sure it isn't going to have an impact on your comfort in the future."

Also, money may be cheap to borrow, but retirement is costly, especially when inflation is factored in.

The Angus Reid survey found that soon-to-be-retired Canadians are particularly nervous about the amount they've put away, Shachi Kurl, public policy analyst for Angus Reid, says. Many Canadian workers are being laid off from jobs earlier than expected.

"There is a significant portion of retired Canadians today – about half – who say they ended up exiting the work force and not earning what they planned," Ms. Kurl says. "So that can be a source of concern. If you're counting on working until a certain year and you calculate for that, and one day you get a tap on the shoulder and you're in your mid-50s, it can be pretty hard to get back in."

Ms. Scott says another factor that can affect retirees is floating interest rates.

"That can have a big impact on people. For most mortgages, the term is five years. Every five years, you have to re-qualify. If you have a drop in income, or if your other debts are high, or if rates go higher, the bank will look at all those factors and determine whether you qualify. People's financial situations change."

The desire to pay for kids' housing needs is part of a cultural shift. Somewhere along the way, we collectively decided that we should spoil ourselves, kids included. The older generation indulged in a trip to Hawaii or Florida a couple of times in a lifetime. Dinners out were for celebrations. Their kids got jobs at McDonald's. The boomer generation, however, indulges in annual trips and dinners out routinely. Likewise, they indulge their kids.

"I work with lots of people who are transitioning into retirement and part of their unpreparedness is the fact they have not put as much into savings because they've been supporting their kids in various ways," Ms. Mizgala says. "It didn't used to be that parents had the same pressure to write cheques to the kids for down payments, but it seems like that has culturally changed a bit. There's so much pressure to consume and spend, generally speaking.

"I would rather see parents do a better job educating their kids around fiscal responsibility and budgeting … as opposed to handing money over.

"If a child can't swing it on their own, it really suggests to me that there's something that's not right with that equation. I know housing is expensive, and I know the job market is challenging for kids, but I think the expectation for the younger generation is they have so much more, so much earlier. That just creates a false sense of what's possible and sustainable."

Sarah learned the hard way. Now, her advice for parents is to just say no.

"You better really, really know you can afford it, and you're not going to go into any kind of a debt situation to do it," she says. "And assume you are never getting repaid – I don't care how great your kid is. Basically, you're taking this pile of money and you're setting fire to it."