FP Answers: Should I sell my house, invest the money and rent?

With a huge mortgage and strapped for cash, 59-year-old Rhonda is considering selling her house and retiring in six years

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A realtor's sign outside a house for sale in Toronto on May 20, 2021. PHOTO BY REUTERS/CHRIS HELGREN/FILE PHOTO

Article content

By Julie Cazzin with Janet Gray

Q : I am 59 years old and have a mortgage of $300,000 on my townhouse, which is worth about $450,000. My net income is $3,800 monthly and I plan to keep working six more years. At that time, I will be eligible for full Canada Pension Plan (CPP) benefits. Right now, I feel financially strapped and I'm considering selling my home as I will never be able to pay down the mortgage. I am just breaking even month to month. Should I seriously consider selling my home, renting and perhaps investing the rest to get more income in retirement? If so, how would I invest this money? — *Thank you, Rhonda P.*

FP Answers : Your question is one that many soon-to-be retirees are also asking. There is a saying — and you may have heard it — about being "house rich but cash poor," and this applies to many (if not most) people who reach retirement with the majority of their assets held in their home.

You didn't specify the amount of your expected retirement income, but it is often lower than what people received in their working years. There are several things to consider before deciding to sell.

First, can you further reduce expenses? Sometimes, merely cutting back on eating out, new clothes and haircuts, transportation and expensive vacations, as well as shopping around for more affordable car and house insurance can save you thousands of dollars.

Can you work past age 65? Perhaps not in your current job, but somewhere you can earn a little extra income. For example, some people take in boarders or rent out the basement or garage to help offset mortgage costs. Others will do a bit of tutoring or take on part-time jobs such as dog walking to help pay the bills.

And, yes, some will sell their home in order to free up the equity of their largest asset. Of course, selling your house can provide more choices after real estate costs and the mortgage itself are paid off. Doing so could make it possible to buy a more affordable home in a more affordable location. Or you could simply decide to move to a rental where your expenses (taxes, maintenance, utilities and other costs) are minimal.

The first thing you need to do is to get total clarity on your situation. Prioritizing your goals and values is the place to start. Staying in their home is often an important goal for many retirees. If you find, upon further reflection, that's what you want to do, then look at ways you can stay where you are. As mentioned earlier, maybe you can share home costs with someone. Maybe you can create a self-employed business where you can deduct some of your home costs as business expenses. You'll pay less tax and have more money in your pocket.

These are all viable options to help you keep your home. After all, renting or buying/staying in a home is a lifestyle choice. You may find that a less costly home where maintenance is taken care of for you is a good option. In that case, a modest condo could help you maintain homeownership, but minimize your costs going forward into retirement. It could be an option worth considering in your case and, after running the numbers on such a scenario (versus selling your home and renting), it may provide the middle ground that would suit your lifestyle and retirement goals.

Other options are also worth looking at. For instance, maybe you can delay receiving your CPP benefits past age 65. You could receive an additional 0.7 per cent for each month delayed up to age 70. In the case where you put off receiving it until age 70, your CPP benefit is increased by 42 per cent.

Similarly, you can also delay receiving Old Age Security (OAS) past age 65. You could receive an additional 0.6 per cent per month up to age 70 for a total additional benefit of 36 per cent. Of course, you are forgoing those benefits during the five-year time frame between ages 65 and 70, so you want to be sure to continue working or use your savings in the interim.

You mentioned going into retirement with a mortgage. It's not an ideal situation for many, but your budget may be able to accommodate the payments pretty easily given mortgage rates are at record lows. Make an appointment with your mortgage lender to see if there are other borrowing terms that will suit your current and retirement incomes. They may be able to offer you a lower interest rate or extend the amortization period so the payments fit your budget. This would allow you to stay in your home for a few more years, so you can live in your home in a neighborhood you may feel quite at home in.

Finally, calculate what your retirement expenses will be *before* you sell your home, buy a smaller place or choose to rent. If you plan to rent and you invest the profits from the sale of your home at a reasonable 4.5 per cent, what income will that provide annually to age 95? That will give you an idea of what you can afford to rent and whether you should consider working longer.

Ultimately, if you decide to sell your home, you may want to consult a financial planner who can run the numbers and draw up a financial plan to guide your finances through the years. You may also want to get some basic investment advice from a fee-for-service adviser so any money you save in future for investment purposes will be invested in a simple, low-cost, balanced portfolio of equities and fixed-income securities.

Remember, if you decide to sell, whatever money you net from the sale will have to last you 30 years. A good adviser will ensure the money is invested as tax efficiently and conservatively as possible while still giving you the extra income you need throughout retirement to live a comfortable and worry-free life.

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