Real estate windfall: When aging parents sell the house, where should the money go?

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Not long before Christmas in 2016, Rebecca Thomas-Lorenzon's aging dad told her he wanted to talk about money. He'd recently been given a diagnosis of terminal cancer, and there was something he decided to give his daughter, a paramedic in Cobourg, Ont., who is studying to become a nurse.

It was a money order for $25,000, one quarter of his proceeds of the sale of an investment property they'd co-owned in Kitchener, Ont. He planned to divvy up the rest and dole it out to her three siblings.

"He gave us all a large chunk," says Ms. Thomas-Lorenzon, explaining that he decided to sell while he was still alive and give the money away in order to reduce the size of his estate and save thousands on probate. "He was able to see what we did with it."

It's a scenario that many aging parents deal with when selling their home or other property. Seniors who are left with large sums need to decide how their real estate windfall should be handled and invested.

Helping out adult children is one option. Two of Ms. Thomas-Lorenzon's brothers used the cash to pay off debt. Her sister held on to most of it to finance an upcoming home renovation. Ms. Thomas-Lorenzon used $15,000 to help pay down her mortgage. The remaining cash she used to help pay for a missionary trip to Rwanda with her family.

"I was able to show him the pictures," she says of the trip. "It meant a lot that the money came from him."

Not all aging parents are in a position to give money to their children. Some need the funds from a property sale for their golden years, especially those suffering from health problems and facing the prospect of expensive assisted-living costs. But others with more ample retirement savings - particularly those who have cashed out of the high-flying Vancouver and Toronto markets - might not need the money and could wish to gift some of it to their kids.

Tony Mahabir, a certified financial planner and chief executive officer of Canfin Financial Group of Companies in Toronto, says his advice to clients is based on how much risk they feel comfortable taking on, but, generally speaking, if the home sale gives them less than a $1-million to work with, he usually recommends investing the money in exchange-traded funds or other low-cost mutual funds or pooled investments.

If there's more than a $1-million at stake, he recommends having a certified financial analyst take over to find the best bargains for equities and to keep an eye on the portfolio over the long term.

Regardless of what stock markets are doing, it's a good idea to take a deep breath before launching in.

"Give yourself time to make those decisions," advises Janet Gray, a certified financial planner of Money Coaches Canada in Ottawa, mentioning that it's often a good idea to keep the money in a high-interest account or guaranteed investment certificate (GIC) for a few months while coming up with a plan.

"Just let it sit and cool. It's allowing you time to consider what the right choice will be," she says. "In the end that will be more worthwhile than making an extra percentage or two."

One important thing to remember is that the money from the sale of the house belongs to the parents, unless they have officially gifted it to the kids. Even if adult children don't mean to take advantage of their parents, Mr. Mahabir says it's common for them to start thinking of their parents' money as their own, especially if they are managing it. For instance, they might dive into riskier emerging markets in China instead of more appropriate conservative, blue chip stocks better suited to their parents' investing needs.

"The parent's risk tolerance should always come before the children's risk tolerance," he says, something that is particularly important to remember if a parent's mental state is declining and children are stepping in to manage the funds.

David Weinberg, a financial adviser in Toronto, says his family worked together to help his parents create a retirement nest egg that they can access and enjoy while they're still in good physical and mental health. Now in their early eighties, the couple still travels, hosts parties and are often out at night for dinner and a movie.

The linchpin of the plan? Sell their swishy condo in northern Toronto and rent a nice apartment in the hopping Yonge and Sheppard neighbourhood instead.

While some of the condo proceeds are accessible and liquid to pay for day-to-day expenses and vacations – along with other savings they've accumulated over the years – Mr. Weinberg helped them invest another portion south of the border in stable, income-generating investments. His parents vacation extensively in the U.S., he says, so now they have access to money there without being as exposed to currency fluctuations.

"A lot of people live in nice homes, nice condos, but they don't have the freedom or flexibility to enjoy their wealth," says Mr. Weinberg. "[My parents'] quality of life is what they wanted it to be. They don't have seven figures of capital tied up in bricks and mortar. They're loving it."

Not every story has such a happy ending though. Suzanne Ethier, a sales representative with Keller Williams Golden Triangle Realty in Kitchener, Ont., runs seminars with Guelph, Ont., certified financial planner Darren Devine on how to merge the sale of a family home with retirement planning.

Forget the whole idea of coming into a real estate windfall when you're still young enough to enjoy it, she says. Ms. Ethier is loath to even use the word, "windfall." When she runs the numbers for a 65-year-old couple, it's anything but. Take $800,000 on the sale of a home, for instance. If they live into their mid-nineties, that nest egg will work out to $26,667 a year, before any taxes or fees. According to research firm Urbanation, the average condo rent paid in the GTA is $2,385, or $28,620 per year.

Often when people finally sell their home, Ms. Ethier says it's because they simply can't live there safely anymore and they need to move into an assisted-living arrangement – something that costs an average of $3,150 per month in major cities across Canada according to 2018 data from Comfort Life.

"The frightening part is they're going to outlive their finances," she says. "It's a sad scenario. It's really scary."

That's why investing that chunk of real estate dollars early and well is so crucial, says Mr. Devine, who maintains that many of his retiree clients are no longer wanting their money in fixed assets that pay out little interest. Instead they're investing like they're still in their forties and in balanced funds that may pay out more, although are on the riskier side. Retirees need that money to grow and last.

"Now the lines are being blurred," he says. "The balance fund may be the new income fund for retirees if interest rates stay this low."