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Home ownership leads to lifestyle options

For many retirees, that paid-off family residence can open doors for life after work, writes
TERRENCE BELFORD

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A year from this December, Joan Kilgour, 76, gets to leave her daughter's Mississauga home and again have a place of her own. This time, however, it will be a 750-square-foot, one-bedroom (plus den) condominium in Hearthstone by the Bay, a new mature-adults-only building on Toronto's western waterfront.

She says she can't wait to be on her own again.

Jean Stechyshyn, 84, found what she thinks is the perfect home a year ago. She bought a large one-bedroom condominium at the Village by the Arboretum, just south of the University of Guelph.

Like Mrs. Kilgour, Mrs. Stechyshyn has made what is known as an "age-in-place condominium" her choice of home.

Hearthstone and the Village by the Arboretum are the first wave of a new form of real estate that not only provides home ownership but also an à la carte menu of support services designed to allow seniors to remain in their own homes for the rest of their lives.

But there is also another thing that ties the two together. They are able to afford a relatively worry-free old age because both had mortgage-free family homes to sell when the time came to choose where to spend the years remaining. That fully paid-up home translates into freedom of choice when it comes to retirement lifestyles, say the experts.

"The first thing I advise all my clients is to pay off the mortgage rather than top off retirement investment accounts," says David Phipps, a senior financial adviser with Assante Wealth Management Inc. in Ottawa. "The key to successful retirement usually proves to be that mortgage-free family home."

While real estate in general can play a huge role in a comfortable retirement, the family home is indeed the foundation stone for most people, adds Bruce Cumming of Cumming & Cumming Wealth Management of Oakville, Ont.

"A great many people have second and even third homes. There is the family residence, the cottage and maybe a place in Florida," he says. "What those properties become, in effect, is a significant financial reserve to ensure for the continuing care that will be needed in the later years of retirement."

Mr. Cumming's reasoning starts with the strain already placed on provincial health care systems. He points out that up to three quarters of health-care spending already goes to people 65 and older.

Since we are barely into the baby boomers reaching retirement age, demographics dictate that the situation must inevitably become worse.

"What that means is that in 20 years time, provincial health care systems simply will not cover all the things they do today," he says. "Seniors will have to pay part of the cost of health care they need during retirement."

As he sees it, seniors will spend the first 10-to-15 years enjoying their vacation homes, then likely sell them to create needed cash.

The family home will be the last major asset to be sold, likely during the last 10 years of life to finance a home in an assisted-living community.

"Real estate becomes the way to finance both health care and independent living," he says. "If you don't have a paid-up family home, then you have very limited options indeed."

While owning a free-and-clear family home is a relatively straightforward proposition with few tax considerations, additional forms of real estate each carry with them both upsides and downsides, says Mr. Cumming.

"You have to be aware that anything other than that tax-free principal residence carries with it tax and other considerations," he says. "Real estate as an investment demands proper planning and structuring."

Take the family cottage as an example. Unless care is taken in planning, children who inherit a family cottage could face a tax bill of nearly 25 per cent of the market value of the property.

Investment properties can often bear similar tax consequences and southern getaways are subject to U.S. state laws, which might demand heirs pay taxes on a property as if the value of that property was income in their hands in a single year.

"There are things families can do to make it possible for the children to be financially able to keep vacation properties in the family," says Debbie Ammeter, vice-president of advanced financial planning at the Investors Group in Winnipeg. "The key, however, is to begin planning well in advance of need."

Mr. Cumming says in the case of family cottages, the parents might consider either taking out a life insurance policy large enough to pay taxes due on their deaths or even take out a larger policy and create a family cottage trust.

"Suppose the value of the cottage on the parents' death was \$500,000," he says. "What they might have done is taken out a . . . policy for \$200,000. That would let the children pay the \$125,000 or so in taxes."

Alternatively, they might structure ownership of the cottage as a family trust and arrange a life insurance policy for \$500,000.

On their deaths, there would not only be enough money to pay the taxes but also for an investment fund, the interest from which could pay all cottage operating costs.

"For a 60-year-old couple, a \$500,000 policy would cost about \$5,000 a year in premiums," he says. "While they are financially able, the parents could pay the premium and if their resources became taxed, then the children could bear all or part of the costs."

Mr. Phipps offers a word of warning to those investing for retirement.

In effect, he says, do not put too many eggs in a single basket. All forms of real estate -- whether they're residential, vacation, REITs or commercial -- tend to move together as a class. When the market drops, all real estate may drop at the same time.

"What I suggest is people look and examine what share of their total investments is attributable to their family home. Then make certain that what is left is widely diversified," he says.

For most people, however, it will be that paid-off family home that holds the key to financing and enjoying a comfortable, secure retirement.

"For me the secret to comfort has been the family home," says Mrs. Kilgour. She and her husband Bill sold their home in Guelph 10 years ago and paid cash for a place in a retirement community in St. Mary's, Ont. After her husband died two years ago, she sold that place, banked the proceeds and moved in with her daughter Barb Hildebrand.

This July she was able to pay for her new condo. "We looked at rental places but you have to pay about \$3,500 a month in many of those places and all you get is a single room," says her daughter Barb.

Mrs. Stechyshyn's story is similar. She had lived in St. Catharines, Ont., for 65 years and owned a home there. When her husband died his pension died with him, she says. She needed a community that offered increasing levels of support to maintain her independence.

Happily, she says, she found Village by the Arboretum a year ago. The initial attraction was the proximity to a daughter who lives in nearby Rockwood.

She was able to sell the family home and pay about \$250,000 cash for her new condo.

"I don't know what people do if they don't have that family home to fall back on," says Ms. Kilgour. "As they near retirement they must be deeply concerned about their future."

