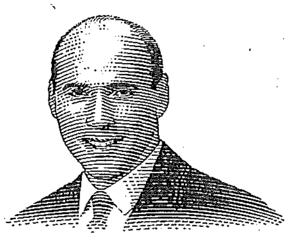
Nearly 40% of wealth tied up in real estate

'HOMEMADE SAVINGS' THE NEW RRSPS



GARRY MARR
Family Man

Who needs to save for retirement when your home is the new RRSP?

"I wouldn't advocate it," says Benjamin Tal, senior economist with CIBC World Markets, about considering your home a big part of your retirement package.

But that's exactly what Canadians are doing. Mr. Tal says that as of the second quarter, 38.5% of Canadian wealth is tied up in home ownership, a huge percentage when one considers it in a historical context. Just 20 years ago, the percentage of wealth in home ownership was about 16.3%.

"I would call what Canadians are doing passive savings or homemade savings," says Mr. Tal, adding one of the reasons the savings rate in Canada has not been rising is people are pouring more money into their homes than into investments.

The problem with that strategy is that a house may not be all that liquid and it's hard to take pieces out to fund your retirement.

"House prices will not go up forever," says Mr. Tal, adding the latest turnaround in the housing market seems to indicate otherwise.

While Americans learned a harsh lesson about having too much money tied up in their house, Canadians continue to believe their home is sacred and will save them from bankrupt pension plans and devalued retirement investments.

And when their house is continuing to appreciate, people tend to not diversify their portfolios into other investments, Mr. Tal says.

"Home valuations can go down," he cautions.

Toronto certified financial planner Cynthia Kett says the percentage housing takes up of your personal wealth will usually be higher in the early years and should be lower by retirement.

"If planning is done right, it shouldn't be a large part of your retirement," she says, adding she aims for 25% to 33% of total wealth to be in a client's house.

She says Canadians might want to consider a smaller house if they are so short of funds they can't find the cash to diversify their portfolio.

> *House prices will not go up forever*

"People are buying houses that are larger than they can afford and larger than they need."

And unless they are planning on renting out the basement, people would find it tough to count on the capital in their real estate to generate cash flow in retirement.

So, it shouldn't come as a surprise that, with Canadians having so much wealth invested in their homes, an increasing number are turning to reverse mortgages to fund retirement.

"The stats are certainly proving that," says Gary Krikler, chief financial officer, HomeQ Corp., which ultimately controls the CHIP Home Income Plan.

CHIP has the largest portfolio of reverse mortgages in the country.

"Our recent research indicates 77% of senior net worth is in home equity, and 17% view their home as their retirement fund," says Mr. Krikler.

The research also indicates 84% of seniors don't want to leave their home.

The senior population is expected to climb from 4.3 million in 2006 to 9.8 million in 2026, and many are expected to dip into their house.

"It's fact of life. I can't say whether it's good or bad," says Mr. Krikler.

But dipping into your home comes at a price.

On a $400,000 house, you could probably get a reverse mortgage of $120,000, at an interest rate of 4.9%.You don't have to make payments, but that debt will grow quickly.

By the time you die or leave the house, you'll have a lot less equity in it, unless home prices continue to rise at their present rate.

Your only other option will be to downsize or sell your house to access the equity.

Is that the type of foundation you want for your retirement?

Dusty Wallet While not advocating one phone company over another, it's amazing what type of deal you can get when you threaten to switch your home service. By just calling the phone service provider, DW was able to save $20 a month by switching to a plan that offered the exact same services already subscribed to.

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