INVESTOR EDUCATION FUND

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Home Equity as a Source of Retirement Income
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0.0 EXECUTIVE SUMMARY

- The current research set out to address three key issues for retirement living.
  - To what extent is household wealth locked into the value of a home or other property?
  - To what extent and how will people pay off home-related debt during their retirement?
  - In what ways are people willing to use their home equity to generate retirement income?

- This study is based on 1500 online interviews conducted with a representative group of current and former homeowners across Canada. All respondents are at least 50 years old. Half are retired. The margin of error is ±2.5% some 19 out of 20 times.

Sources of Retirement Income

- Just over half of households have a company pension plan, and likewise, just over half have an RRSP or similar retirement savings. Overall, two out of 10 have a RRIF or similar investment, while only one out of 10 has an annuity. Almost half have savings outside an RRSP or RRIF. About one out of eight households have no access to any of these most common sources of retirement income. Six out of 10 have more than one income source, and half of this group has three or more sources.

- Almost half of all households hold mutual funds (or similar investments) and four out of 10 have GICs. About one-quarter hold stocks or bonds. Roughly another quarter own other investments including cash value life insurance, income trusts, hedge funds and other investments.
- Three out of 10 households have no financial assets in the form of GICs, investment funds, stocks, bonds or other investments. Accumulation of financial assets is directly linked to household income. By contrast, four out of 10 households have more than one of these types of investment. Almost half of this group (16%) have three-four types of investments.

- Two out of 10 households don't know how much they have saved for retirement, while four out of 10 are clear that the amount saved is less than $100k. Only two out of 10 have more than $250k saved. Half of all households believe they will exhaust their retirement savings in the first ten years of their retirement.

- One-third of households don't believe they have enough saved for retirement and one-quarter aren't sure. The balance (44%) believe they likely have enough. The more money the household has saved the more likely they are to believe they have enough. Confidence grows with age, suggesting that people adapt to their income level and learn how to live with it.

Property Ownership & Debt

- Only one out of six households have a secondary property. All are current homeowners. Among those with a secondary property, four out of 10 have outstanding property debt.

- Six out of 10 homeowners have fully paid off their principal residence. Among those with outstanding debt on their principal residence, only three out of 10 expect to have it paid off by retirement. One-quarter of homeowners expect to have debt on their principal residence at retirement.

- For those expecting to retire with home debt, the median value of the debt is $71k. Half expect to pay off the debt from their retirement income, one-quarter expects to work to cover the debt and one-quarter doesn't know how they will pay it off.

- The majority of those with debt at retirement have thought about it. They believe they know its impact, rightly or wrongly. Only three out of 10 are very worried about how they will pay down their debt at retirement.

Using Home Equity

- Half of respondents have never thought about the possibility of selling their home to generate income to live on in retirement. Some three out of 10 have thought about it once or twice, and three out of 20 think about it often. Some 6% of respondents have already sold their house to generate retirement income.

- When presented with five potential ways of capitalizing on the equity of a home, four out of 10 homeowners were not really willing to consider any of the options. Interestingly, people don't who don't think they have enough retirement savings are less willing to consider any of the options (35% versus 41% overall).

- Among the five options, downsizing and investing the difference has the broadest appeal (37%). Selling, renting and investing appeals to about one quarter of homeowners, closely followed by getting a home equity line of credit. Renting out part of the home has little appeal at 13% and reverse annuity mortgages (RAM, CHIP) are the least appealing option.

- In practice, the most common strategy for using equity as a source of income for retirement is getting a home equity line of credit to borrow against when funds are needed. Almost one out of 10 (9%) have done this, yet the stated willingness to use this option is less than some other options.

- More than four out of 10 say they will probably or definitely have to sell their house someday because of limited mobility or illness. Some 4% have already done so, but to put this into perspective, this means that of the 9% of our sample who were former homeowners, 44% sold their home because of limited mobility or illness.

- For more than half of households, their home is worth more than their savings. In fact, three out of 10 say their home is worth at least 50% more than their savings. Only one-quarter of households have savings that are worth more than their home, while two out of 10 find them of roughly equal value.

- Six out of 10 say that 'Staying in my home is critical to my quality of life' and half say 'The idea of renting bothers me'. For one out of three, the barrier to selling a home is that 'Leaving my home to a loved one is important to me'. One-quarter show more flexibility saying 'I will use the value of my home to fund my retirement' and 'At some point I will have to sell the house to get enough money to live on'.

- One out of six will rethink their retirement plans as a result of taking this survey.

1.0 INTRODUCTION

1.1 BACKGROUND

Canada's aging population and the increasing debt of Canadian households have been in the news in recent years. Financial reporters have also raised questions about whether people are adequately prepared to fund their retirement.

Against this backdrop is the rise in home value over the past decade. Taken together, this may lead more Canadians to look to their own home as a source of income in their retirement. The Investor Education Fund decided to look at this potentially critical issue, in an effort to help Canadians better prepare for retirement.

The current research set out to examine this issue by answering several key research questions.

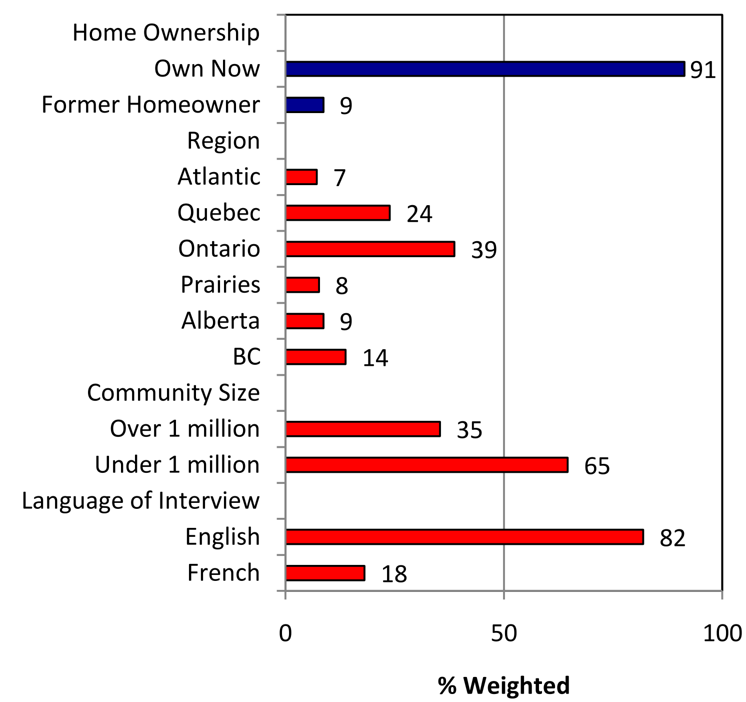
- What financial assets and income streams do people have to generate retirement income? Is this enough?
- To what extent is household wealth locked into the value of a home or other property?
- To what extent and how will people pay off home-related debt during their retirement?
- In what ways are people willing to use their home equity to generate retirement income?

This study answers these key questions and identifies the issues that affect the welfare of many Canadians in their retirement. The results will help to inform decision-making related to the use of home equity as a source of retirement income, and draw attention to the importance of retirement planning for all Canadians.

1.2 WHO DID WE INTERVIEW?

This report is based on 1500 online interviews conducted with a representative group of homeowners across Canada. Because of its focus on retirement and retirement planning, all respondents are at least 50 years old. Nine out of 10 respondents are homeowners, and the other one out of 10 are people who owned a home, but sold it within the past ten years and now rent. The margin of error is ±2.5% some 19 out of 20 times.

Exhibit 1.1a Homeowner Demographics



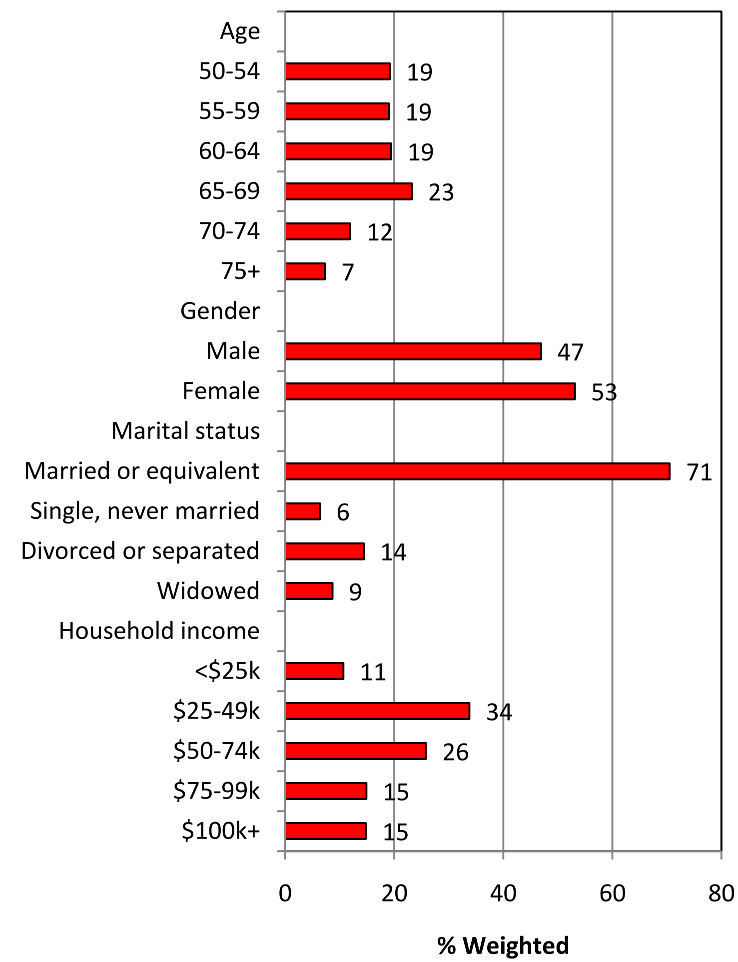
In our sample, 91% own homes and this does not vary significantly by age. This intentionally over-represents home ownership in the general population. According to Statistics Canada, **77% of Canadians age 50 and over own homes. The rate of ownership drops to 70% for age 75 and over.** Not surprisingly, for all age groups home ownership depends on income. For example, among the sample segment aged 55-64, 55% of the lowest income earners (earning under $25,000) own homes versus 93% of the highest income earners ($100,000 or more).

Homeowner Profile

The people we interviewed are spread out by age, potentially giving us a good sense of how behaviour and attitude shift with age. Roughly six out of 10 are age 50-64 and the remainder are age 65 and older. Women slightly outnumber men in the sample. Since the sample is weighted by age and gender within each region, this is a reflection of the actual age 50+ population.

Seven out of 10 respondents are married (or equivalent). Six out of 10 have household incomes in the $25-74k range. Only three out of 10 have household incomes above $75k.

Exhibit 1.1b Homeowner Demographics

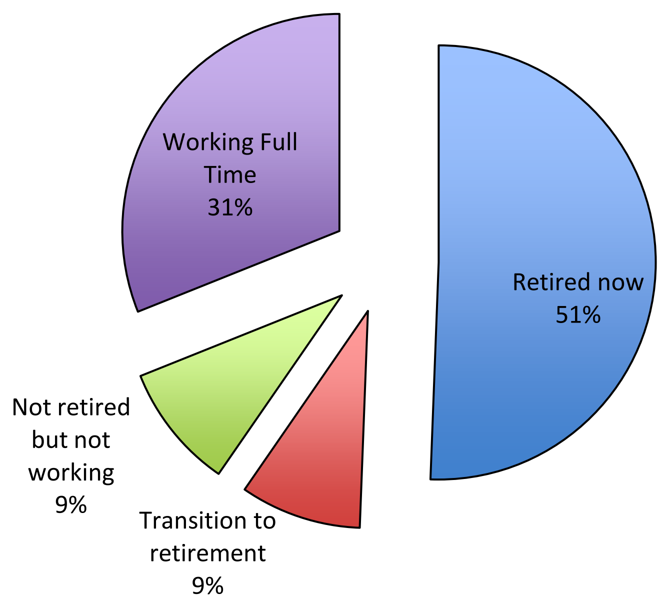


Retired or Working?

Half of the people we interviewed are fully retired and three out of 10 are working full-time. The remaining two out of 10 are either working part-time, looking for work, or working at home. One-third of those still working anticipate retiring within the next four years.

As one would expect, the proportion of retirees increases steadily with age. As a rough index, we note that one-third is retired in the 50-64 age group versus two-thirds in the 65+ age group.

1.2 Retirement Status



2.0 SOURCES OF RETIREMENT INCOME

Highlights

- Just over half of households have a company pension plan, and likewise, just over half have an RRSP or similar retirement savings. Overall, two out of 10 have a RRIF or similar investment, while only one out of 10 has an annuity. Almost half have savings outside an RRSP or RRIF. Six out of 10 have more than one income source, and half of this group has three or more sources.

- About one out of eight households have no access to any of these most common sources of retirement income. The number rises to nearly half for the households with the lowest incomes. Compared to current homeowners, former homeowners are three times more likely to lack these income sources in retirement, suggesting that the lack of income sources was a factor in the sale of their property.

- Almost half of all households hold mutual funds (or similar investments) and four out of 10 have GICs. About one-quarter holds stocks or bonds. Roughly another quarter own other investments including cash value life insurance, income trusts, hedge funds and other investments. The higher the household income, the more of the asset classes they are likely to have.

- Three out of 10 households have no financial assets in the form of GICs, investment funds, stocks, bonds or other investments. Accumulation of financial assets is directly linked to household income. Over half of the lowest income group has no financial assets of these kinds.

- By contrast, four out of 10 households have more than one of these types of investment. Almost half of this group (16%) has three-four types of investment.

- Two out of 10 households don't know how much they have saved for retirement, while four out of 10 are clear that the amount saved is less than $100k. Only two out of 10 have more than $250k saved. This amount includes company pensions but excludes real estate, businesses and government benefits. Median retirement savings are $98k including the estimated value of company pension plans over time.

- One-quarter of households have no idea how much they will need to draw from their savings/investments each year including their company pension. Four out of 10 think they will need to draw less than $20k per year and one-quarter will want to draw $20-39k per year. The remainder (14%) will draw more than $40k per year.

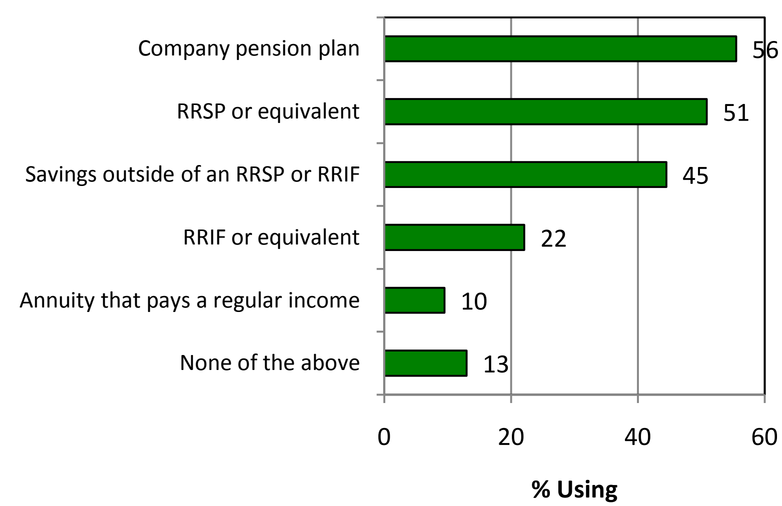
- One-quarter of households believe they will exhaust their retirement savings in their first five years of retirement. Half of all households believe they will exhaust their retirement savings in the first ten years of their retirement. Only one out of 10 households believe their money won't run out in their lifetime.

- One-third of households don't believe they have enough saved for retirement and one-quarter aren't sure. The balance (44%) believes they likely have enough. Quite reasonably, the more money the household has saved the more likely they are to believe they have enough. Confidence grows with age, suggesting that people adapt to their income level and learn how to live with it.

2.1 Sources of Income

- Just over half of households have a company pension plan, and likewise, just over half have an RRSP or similar retirement savings. Overall, two out of 10 have a RRIF or similar investment, while only one out of 10 has an annuity. Almost half have savings outside an RRSP or RRIF.

Exhibit 2.1a Sources of Retirement Income

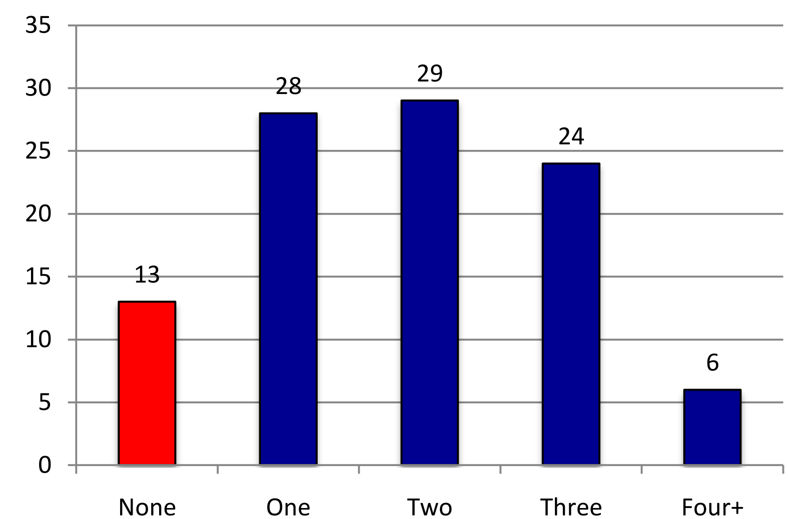


- Among those fully retired, some three out of 10 have a RRIF and one out of 10 has an annuity. Just as many (four out of 10) still have their RRSP.

- About one out of eight households have no access to any of these common sources of retirement income. The number rises to nearly half for the households with the lowest incomes.

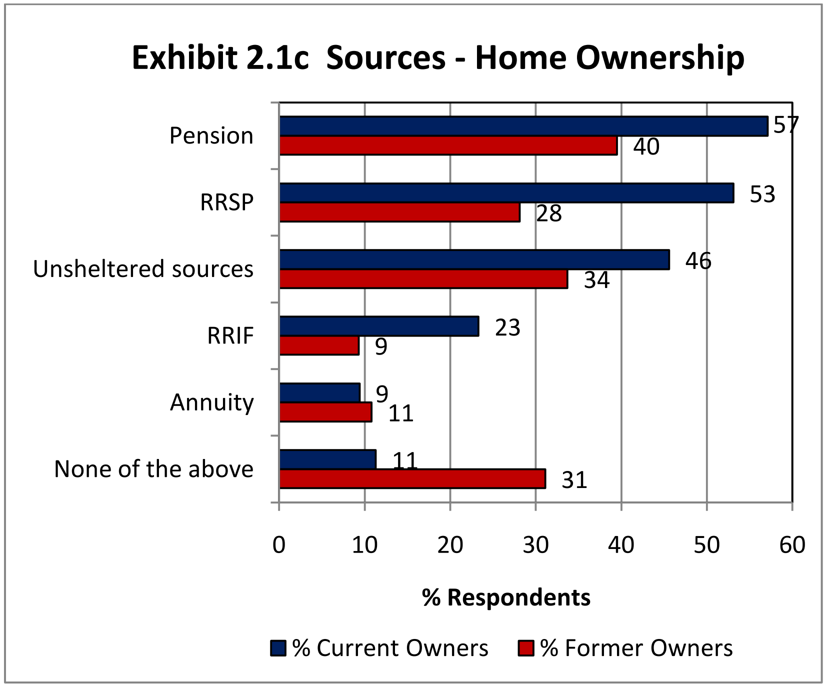
- Six out of 10 households have access to more than one source of retirement income, and in fact, three out of 10 have access to three or more sources. Not surprisingly, household income is higher as the number of income sources increases. The number of sources is also higher in Canada's seven largest cities than in other areas (37% versus 26% with three+ sources).

Exhibit 2.1b # of Sources of Retirement Income



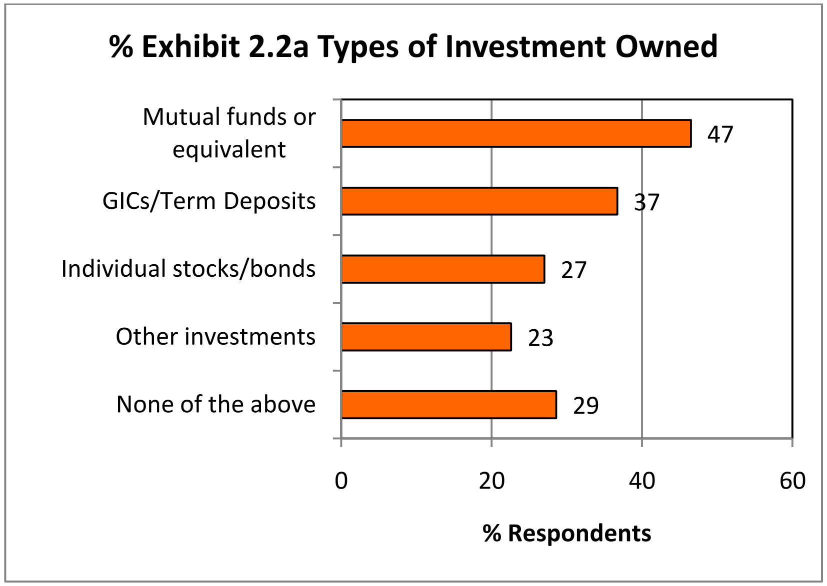
- With the exception of annuities, access to any of these major income sources is far more common among current homeowners than among former homeowners. Company pension plans, RRSPs and unsheltered savings are all increasingly likely as income rises. There are no gender differences.

- Compared to current homeowners, former homeowners are three times more likely to lack these income sources in retirement, suggesting that the lack of income sources was a factor in the sale of their property.



Investments

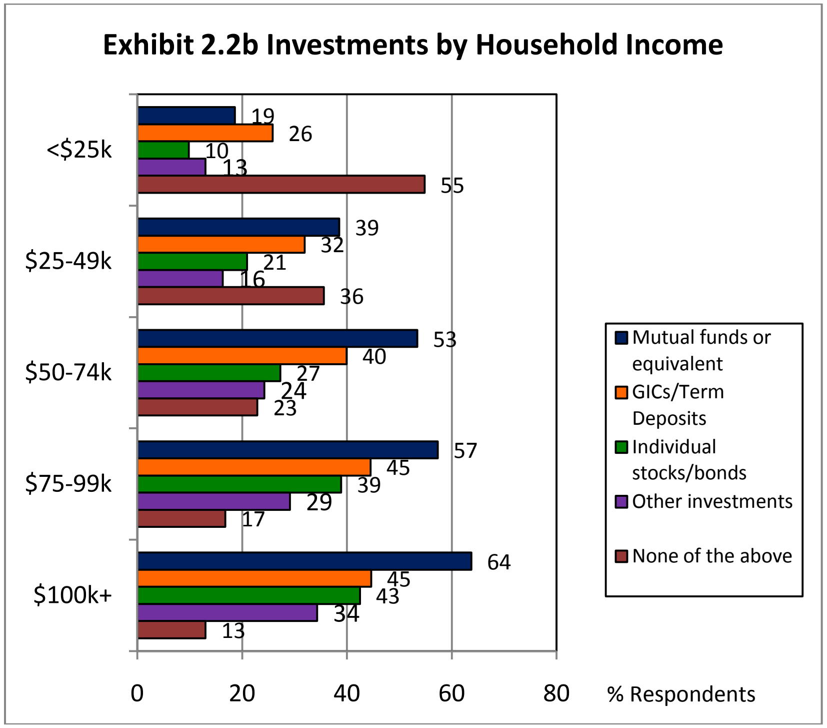
- Almost half of all households hold mutual funds or similar investments and 4 out of 10 have GICs. About one-quarter holds stocks or bonds. Roughly one-quarter own other investments including cash value life insurance, income trusts, hedge funds and other investments.



- Three out of 10 households have no financial assets in the form of GICs, investment funds, stocks, bonds or other investments. Accumulation of financial assets is directly linked to household income. Over half of the lowest income group (<$25k household income) has no financial assets of these kinds. These households are also twice as likely to have sold their home in the past ten years. Households with no financial assets are more common outside major cities.

- By contrast, four out of 10 households have more than one of these types of investment. Almost half of this group (16%) has three-four types of investment.

- The higher the household income, the more of the asset classes a household is likely to have. Differences between the highest and lowest income categories are particularly pronounced for ownership of stocks/bonds, and to a lesser extent, ownership of mutual funds. Differences by age are minor and far less than expected. By gender, stocks and mutual funds are more likely bought by men.



Amount Saved

- Two out of 10 households don't know how much they have saved for retirement, while four out of 10 are clear that the amount saved is less than $100k. Only two out of 10 have more than $250k saved. The remaining two out of 10 have between $100-249k. These dollar amounts include company pensions but exclude real estate, businesses and government benefits.

- Statisticians usually assume that the 'Don't know' group is distributed in proportion to the people who know the amount saved. We have corrected for this in the graphic. Based on the corrected numbers, we see that half of households have less than $100k saved for retirement. Roughly one-quarter have saved between $100-249k and the remaining one-quarter have saved more than $250k.

- To get a better sense of the amounts saved, we calculated the median amount of retirement savings for several demographic groups. These are corrected for 'don't know' responses.

Exhibit 2.3a Amount Saved for Retirement

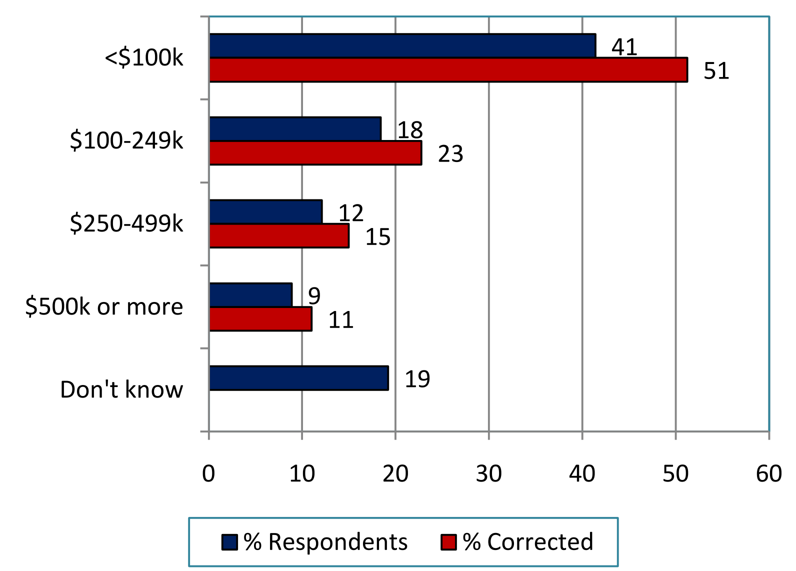
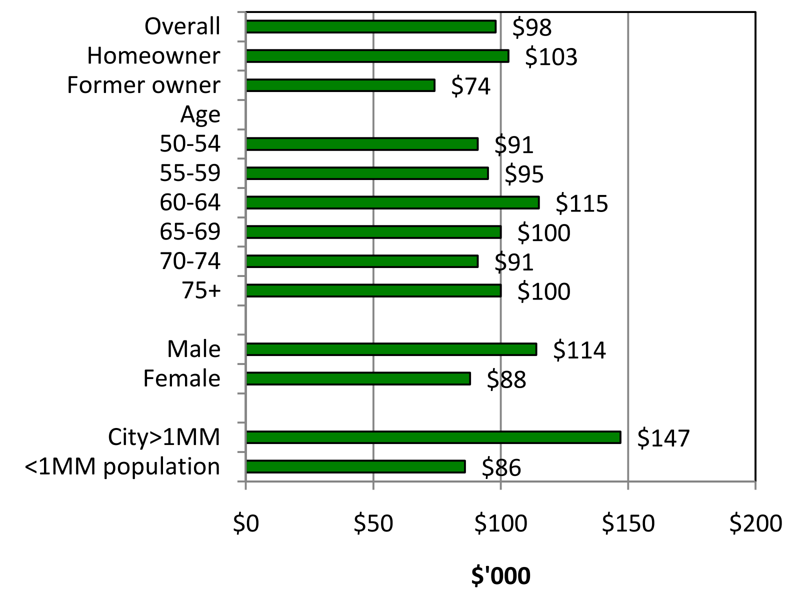


Exhibit 2.3b Median Amount for Retirement ($'000)



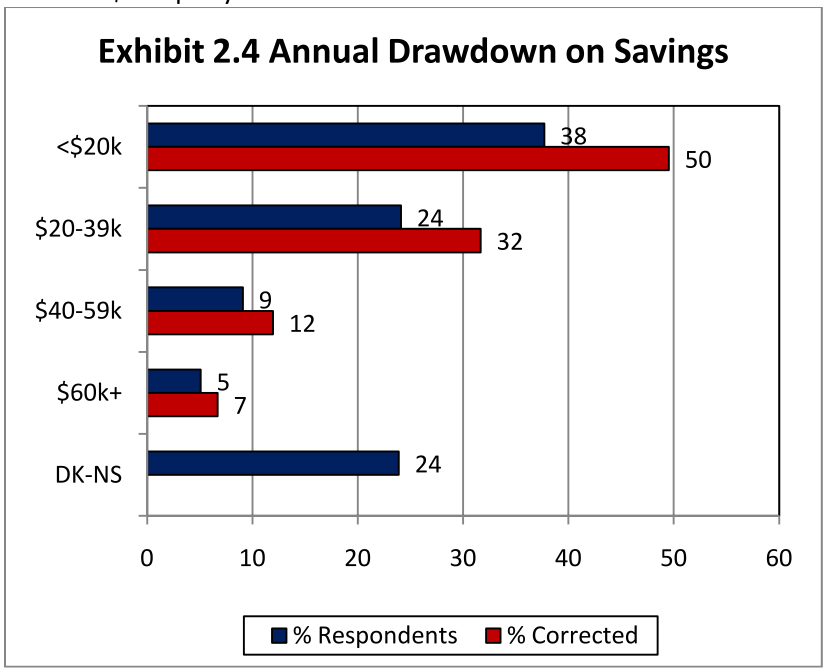
- **Median retirement savings are $98k including the estimated value of company pension plans over time** (which is likely under-estimated)**. The top quartile for retirement savings would begin at just over $250k.** Retirement savings are far greater for current homeowners than former homeowners ($103k versus $74k), suggesting once again that economics plays a key role in deciding to sell one's home.

- The biggest difference in retirement savings is the comparison between households in Canada's seven major urban centres compared to others ($147k versus $86k). And while men have more retirement savings than women, the difference is much smaller.

- Looking at age, savings increase up to age 64 and begin to decline after retirement. We can't explain the increase in amount for age 75+ other than noting that this group has slightly more income sources than others (2.0 versus 1.8).

2.2 Adequacy of Retirement Income

- One-quarter of households have no idea how much they will need to draw from their savings/investments each year including their company pension. Four out of 10 think they will need to draw less than $20k per year and one-quarter will want to draw $20-39k per year. The remainder (14%) will draw more than $40k per year.



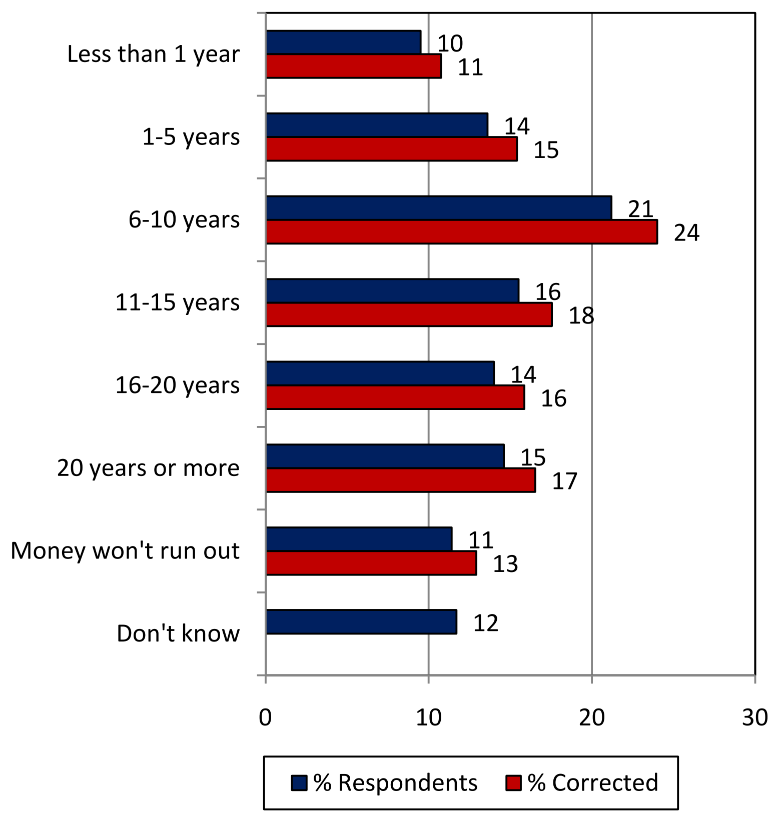
- Correcting for 'don't know' responses, we find that half of households expect to draw less than $20k from their retirement savings each year. Another three out of 10 expect to draw down $20-39k per year. Fewer than one in 10 households expect an annual draw as large as $60k.

How Long Will Savings Last?

- One-quarter of households believe they will exhaust their retirement savings in their first five years of retirement. **Correcting for non-response, half of all households believe they will exhaust their retirement savings in the first ten years of their retirement.**

- One-third of households reckon it will take 11-20 years to exhaust their money and about half as many think it will take more than 20 years. Just over one out of 10 believe their money won't run out in their lifetime. One out of eight has no idea.

Exhibit 2.5 Years Savings Will Last

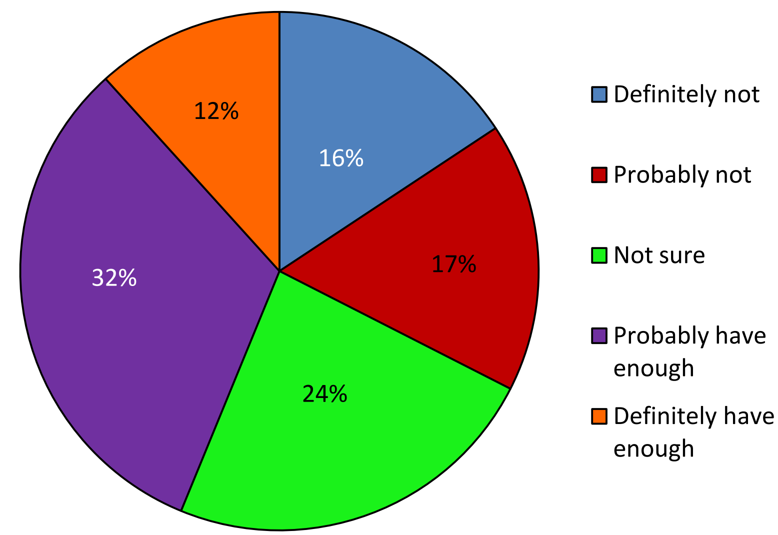


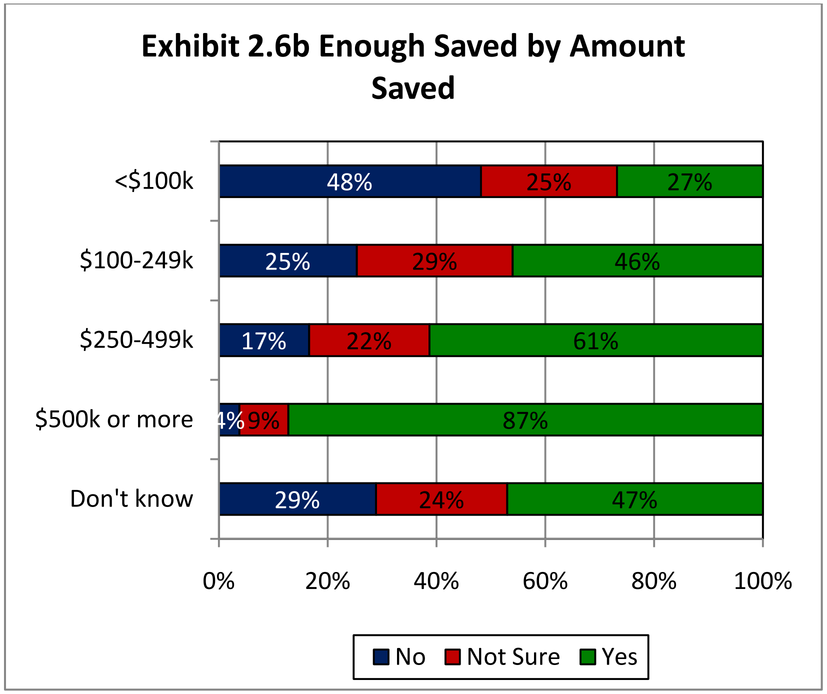
Are Savings Enough?

- Confidence in having enough retirement savings varies for different demographics. **The most interesting finding is that confidence grows with age, suggesting that people adapt to their income level and learn how to live with it.** It is to be expected that more income means more confidence.

- One-third of households don't believe they have enough saved for retirement ('Definitely not' plus 'Probably not') and one-quarter aren't sure. The balance (44%) believes they likely have enough ('Probably enough' plus 'Definitely enough').

Exhibit 2.6a Enough Saved for Retirement





- Quite reasonably, the more money the household has saved, the more likely they are to believe they have enough. With <$100k in savings, only one-quarter (27%) believe they have saved enough. By contrast, nearly nine out of 10 (87%) of those with $500k or more in savings are confident they have enough saved. Confidence rises in a linear fashion with the amount saved.

- More income sources generally means more confidence in having enough savings, but we note that households with company pension plans are the most confident that they have enough to fund their retirement (70%). Only 4% of those with none of the major retirement income sources are confident.

3.0 PROPERTY OWNERSHIP & DEBT

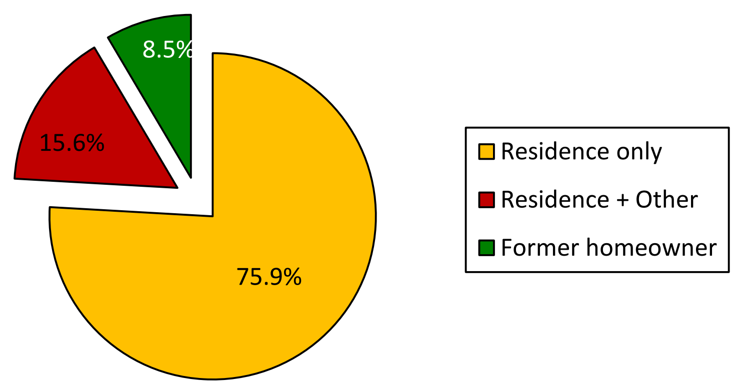
Highlights

- Only one out of six households have a secondary property. All of these are current homeowners. Among those with a secondary property, four out of 10 have outstanding property debt on this secondary property.
- Among all homeowners, nearly four out of 10 have used their principal residence as security for some borrowing.
- Six out of 10 homeowners have fully paid off their principal residence. Among those with outstanding debt on their principal residence, only three out of 10 expect to have their principal residence paid off by retirement. One-quarter of homeowners expect to have debt on their principal residence at retirement.
- For those expecting to retire with home debt, the median value of the debt is $71k. Half expect to pay off the debt from their retirement income, one-quarter expects to work to cover the debt and one-quarter doesn't know how they will pay it off.
- The majority of those with debt at retirement have thought about it. They believe they know its impact, rightly or wrongly. Of this group, only three out of 10 are very or extremely worried about how they will pay down their debt at retirement.

3.1 PROPERTY OWNERSHIP & STATUS

- Only one out of six households in our sample have a secondary property and all of these households also own their principal residence. None of the former homeowners have any real estate.
- As one would expect, the likelihood of owning a second property rises with income from 10% at the lowest income levels to nearly one-third for household incomes of $100k+. The amount saved for retirement shows a similar effect ranging from one out of 10 (<$100k saved) to three out of 10 ($500k+ saved). No other demographic indicators are significant.

Exhibit 3.1a Property Ownership



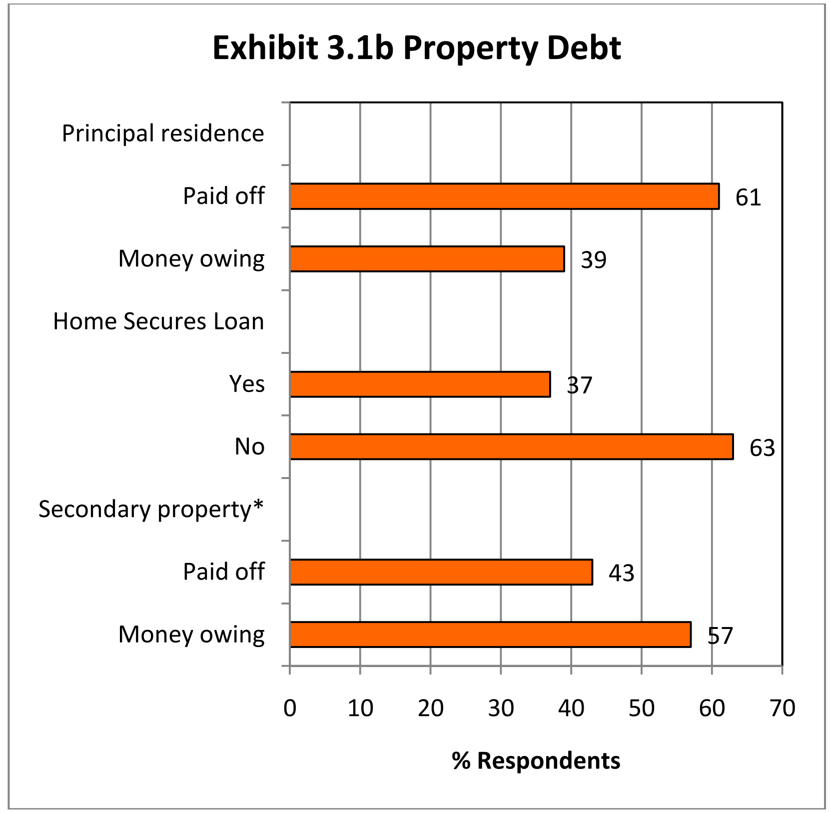
Property Debt

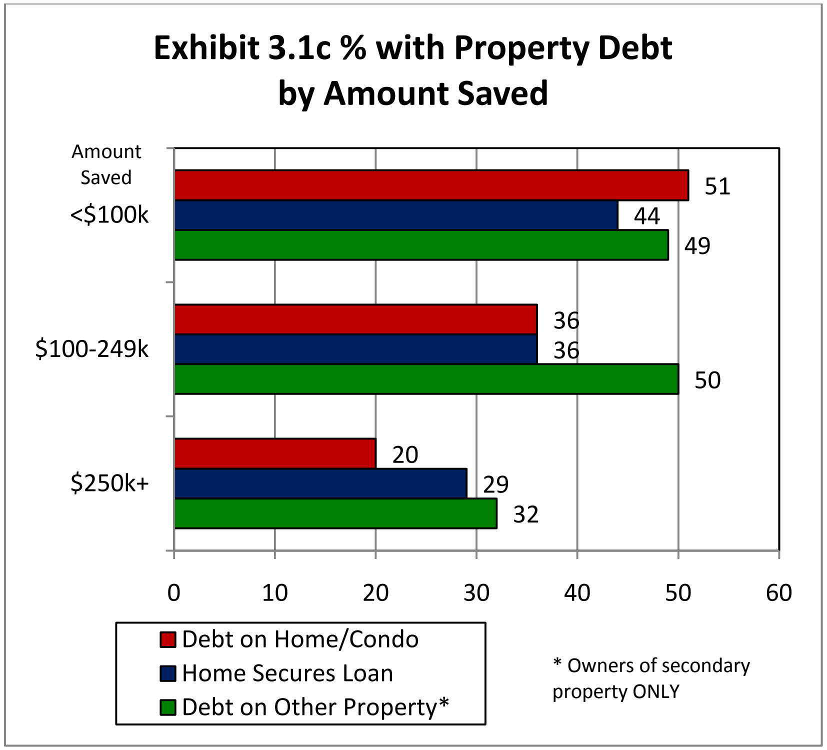
- Some six out of 10 homeowners have fully paid off their principal residence while four out of 10 have debt outstanding. Among those with outstanding debt on their principal residence, only three out of 10 expect to have it paid off by retirement.

- Property can also be placed at risk when it is pledged as security for borrowing. Nearly four out of 10 homeowners have used their home equity as security for borrowing, but they are not necessarily doing so right now.

- Among those with a secondary property, four out of 10 (43%) have outstanding property debt. Those aged 50-64 are far more likely to have secondary property debt than older households by a nearly two-to-one ratio (53% v. 29%). Having secondary property debt is not related to income.

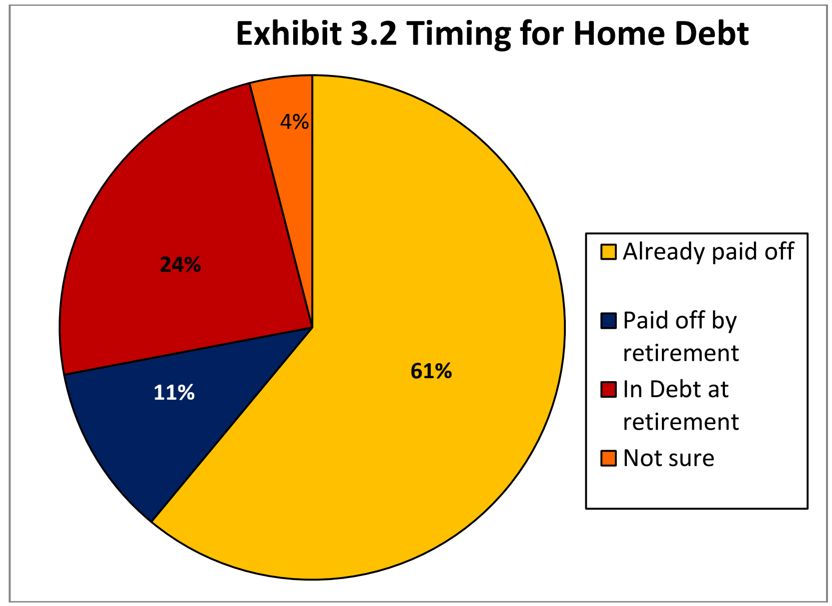
- The amount of money saved for retirement does affect the likelihood of having property debt. As you can see in Exhibit 3.1c, the likelihood of having debt on a principal residence drops from five out of 10 for those with \$100k saved down to two out of 10 for those with \$250k saved for retirement. ***When reading Exhibit 3.1c, please note that 'Debt on other property' only applies to those households that own secondary property.***





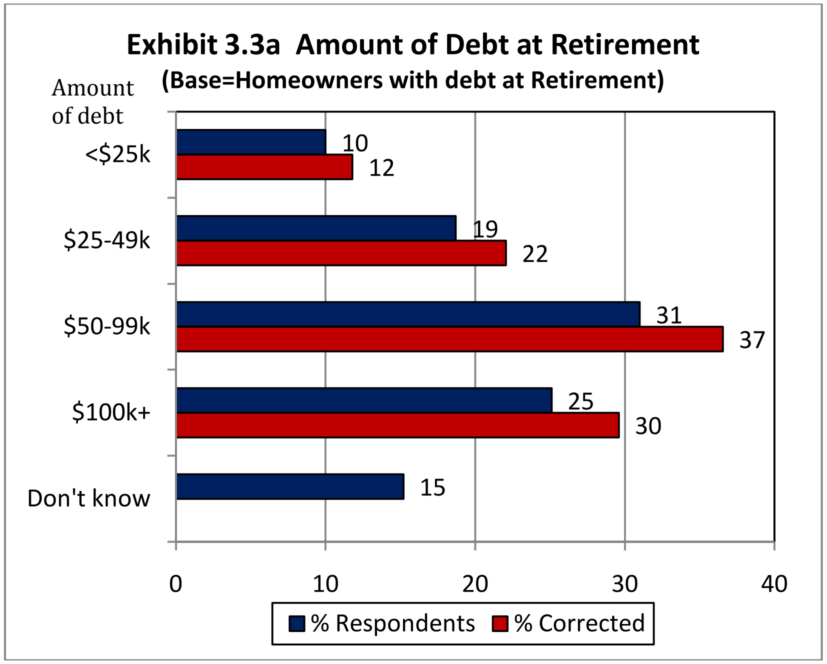
3.2 Property Debt & Retirement

- Exhibit 3.2 gives a single clear overall picture of principal residence debt. Looking at the full sample of current homeowners, we see that six out of 10 have already paid off their home and another one out of 10 will have it paid off by retirement. Roughly one-quarter are/will be in debt at the time of retirement.

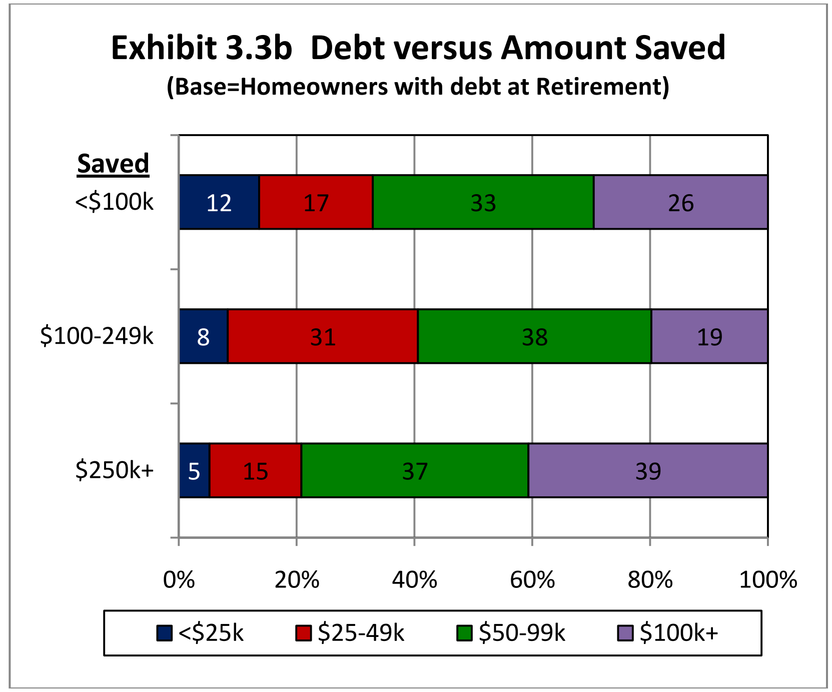


Amount of Debt

- For the roughly one-quarter of current homeowners who expect to retire with home debt, the median value of the debt (corrected for 'Don't know') is $71k. Nonetheless, we note that almost one-third of those with debt will owe $100k or more and another one-third will owe between $50-99k. These are all values corrected for the one out of six debtors who don't know how much they will owe at the time of retirement.



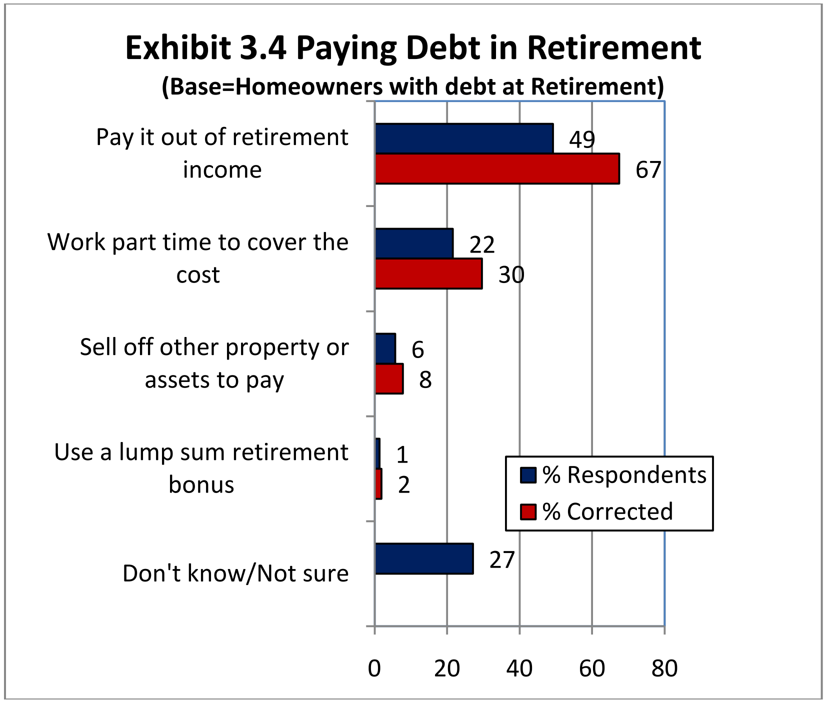
- The amount of debt is not directly related to the amount saved for retirement, but as we saw earlier, the likelihood of having debt does vary by amount saved. Thus the median value of property debt is $82k for five out of 10 households with <$100k saved. The median debt of $64k applies to the one-third of households with $100-249k saved. Only two out of 10 households with more than $250k saved have property debt, and for that group the median debt is $91k.

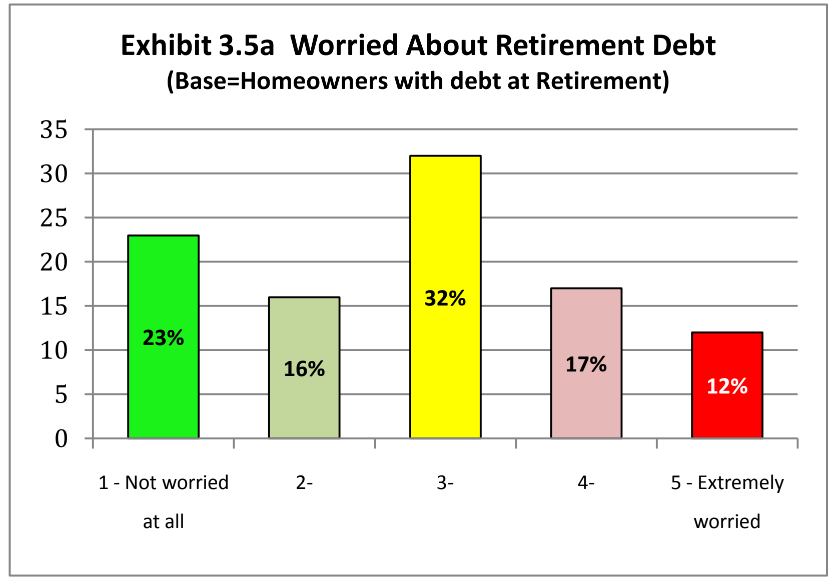


How Will Debt Be Paid Off

- More than one-quarter of those with debt at retirement have no idea how they will pay it off. Half expect to pay off the debt from their retirement income and one-quarter expects to work to cover the debt.

  When we correct for 'Don't know' responses, we see that two-thirds of debtors expect to pay their debt out of their retirement income.

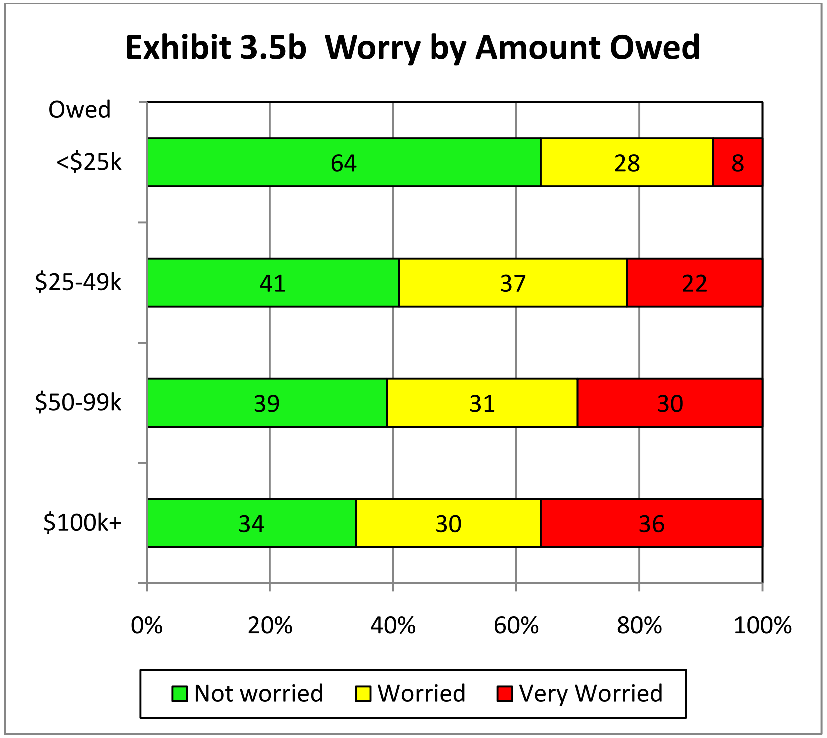


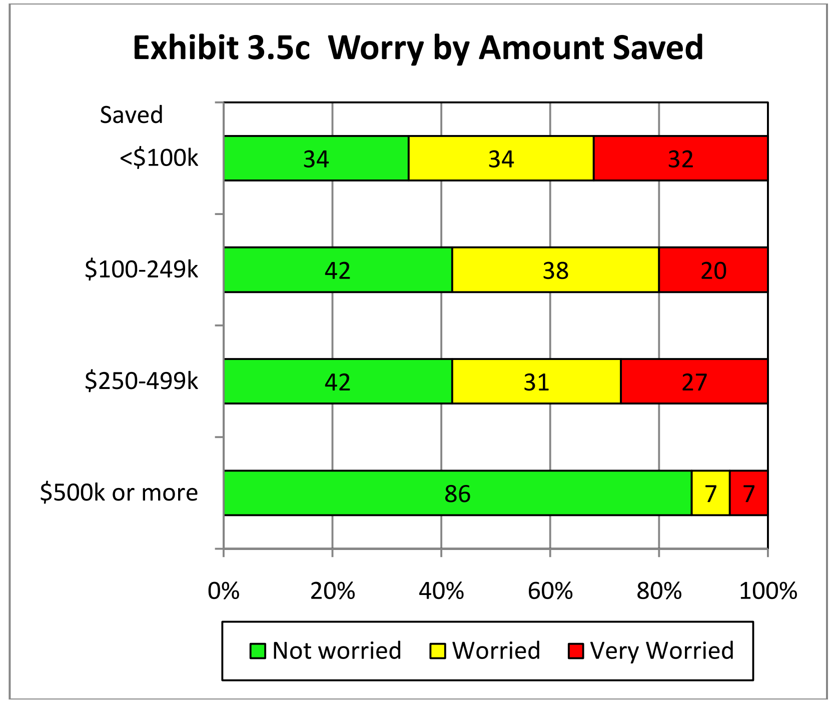


In a very straightforward manner, **the more debt a household has, the more likely they are to be worried**. Fewer than one out of 10 with under $25k of debt are very/extremely worried compared to more than one-third for those with $100k+ debt.

Are People Worried About Retirement Debt

- The majority of those with debt at retirement have thought about it. They believe they know its impact, rightly or wrongly. Only three out of 10 are very worried about how they will pay down their debt at retirement.





- Interestingly, **having more money saved helps mitigate debt worries**. One-third of those with under $100k saved for retirement are very/extremely worried about their retirement debt. This drops to fewer than one out of 10 being very/extremely worried for those with $500k+ saved.

4.0 USING HOME EQUITY AS AN INCOME SOURCE

Highlights

- Half of respondents have never thought about the possibility of selling their home to generate income to live on in retirement. three out of 10 have thought about it once or twice, and three out of 20 think about it often. Some 6% of respondents have already sold their house to generate retirement income.

- When presented with five potential ways of capitalizing on the equity of a home, four out of 10 respondents were not really willing to consider any of the options. Interestingly, people don't who don't think they have enough retirement savings are less willing to consider any of the options (35% versus 41% overall).

- Among the five options, downsizing and investing the difference has the broadest appeal (37%). Selling, renting and investing comes second appealing to about one quarter of homeowners, closely followed by getting a home equity line of credit. Renting out part of the home has little appeal at 13% and reverse annuity mortgages (RAM, CHIP) are the least appealing option.

- The most common strategy for using equity as a source of income for retirement is getting a home equity line of credit to borrow against when funds are needed. Interestingly, almost one out of 10 (9%) have done this, but the theoretical appeal of this option is less than the three mentioned earlier. Reverse annuity mortgage has the least appeal (7%) and the least uptake (<1%).

- More than four out of 10 say they will probably or definitely have to sell their house someday because of limited mobility or illness. Some 4% have already done so, but to put this into perspective, this means that of the 9% of our sample who were former homeowners, 44% sold their home because of limited mobility or illness.

- Correcting for ''Not sure'' responses, we find that only one-quarter of households have savings that are worth more than their home, while two out of 10 find them of roughly equal value. For more than half of households, their home is worth more than their savings. In fact, three out of 10 say their home is worth at least 50% more than their savings.

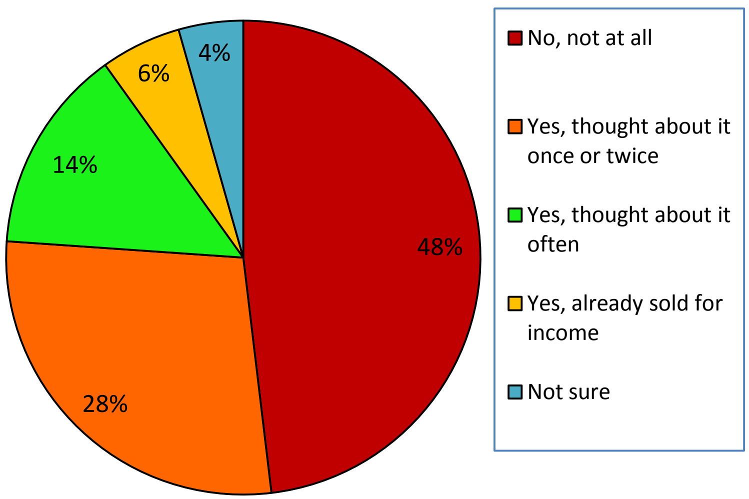
- Six out of 10 say that 'Staying in my home is critical to my quality of life' and half say 'The idea of renting bothers me'. For one out of three, the barrier to selling a home is that 'Leaving my home to a loved one is important to me'. One-quarter show more flexibility saying 'I will use the value of my home to fund my retirement' and 'At some point I will have to sell the house to get enough money to live on'.

- One out of six will rethink their retirement plans as a result of taking this survey.

4.1 WILLINGNESS TO USE HOME EQUITY

- Half of respondents have never thought about the possibility of selling their home to generate income to live on in retirement. three out of 10 have thought about it once or twice, and 14% think about it often. Some 6% of respondents have already sold their house to generate retirement income.

Exhibit 4.1a Thought About Selling Home to Get Income

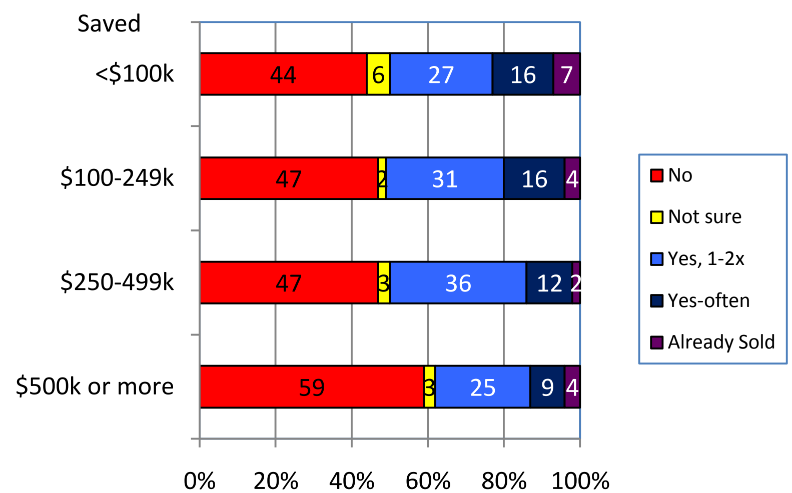


- Those aged 65 and over are less likely to think about selling their house than those age 50-64 (42% versus 52%). In fact, willingness to think about selling their house decreases with age up to age 65 and then levels off.

- Regardless of age, those who plan to retire in the next two years are the most likely to think about selling their home (65%) suggesting that the transition period leading up to retirement is a period of high receptivity to changes in housing.

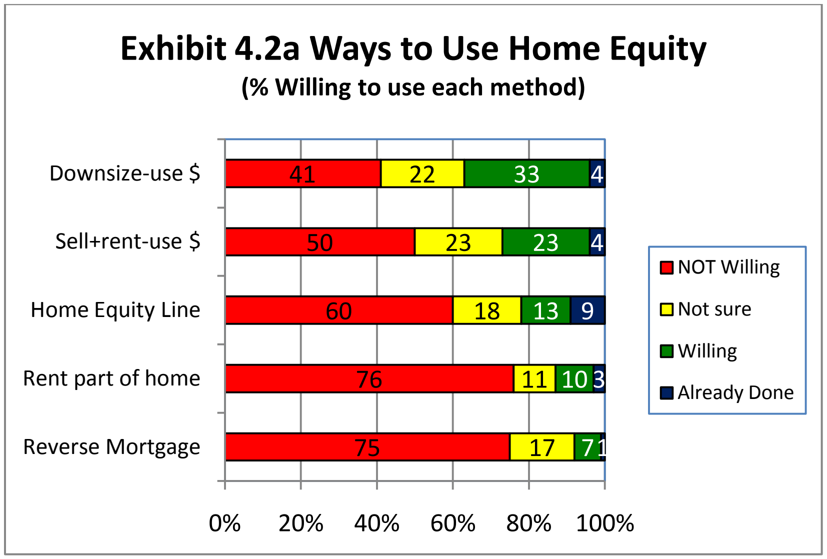
- Looking at the group that are not willing to think about selling their home, we can see that willingness to sell drops off as the amount of money saved increases. And based on our small group of former homeowners, it appears that those with the least saved were far more likely to sell their home to generate income.

Exhibit 4.1b Thought About Selling Home by Amount Saved



Ways to Use Home Equity

- There are five main methods of using home equity. Listed in order of willingness to use the method, they are:
    - Downsize and use the difference;
    - Sell, rent and use the proceeds;
    - Get a home equity line of credit;
    - Rent out part of the home; and
    - Reverse annuity mortgage.



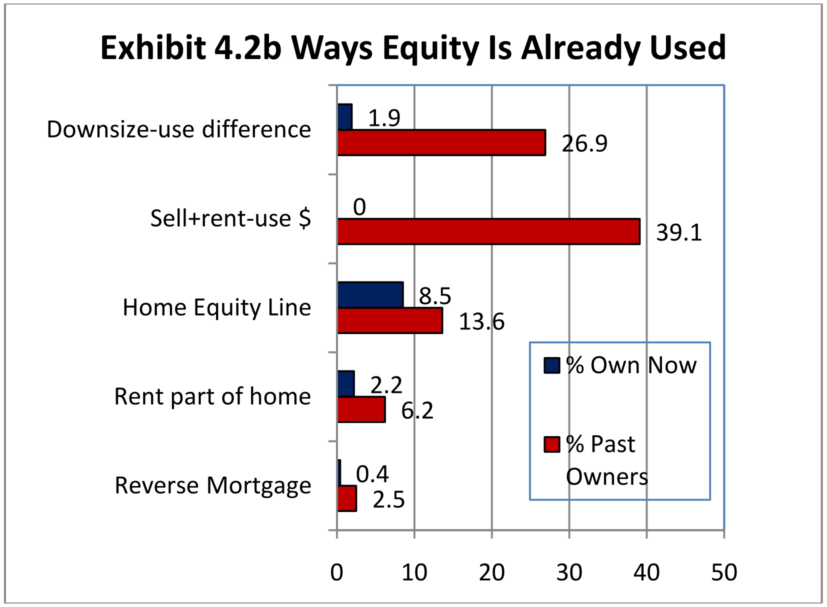
- While not clearly visible from the exhibit, it is worth noting that four out of 10 respondents are not really willing to consider any of the five options. The number is slightly lower for people who believe they don't have enough retirement savings (35% versus 41% overall). Surprisingly, it is no different than average for households with less than $100k saved. Demographic analysis suggests that the rejection of all options is far more psychological than economic.

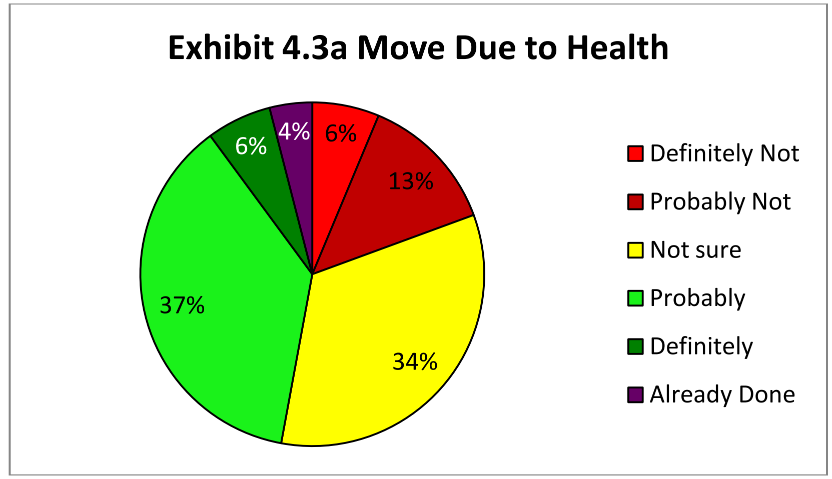
- Among the five options, downsizing and investing the difference has the broadest appeal (37%). Selling, renting and investing comes second, appealing to about one quarter of homeowners, closely followed by getting a home equity line of credit. Renting out part of the home has little appeal at 13% and reverse annuity mortgages (RAM, CHIP) are the least appealing option.

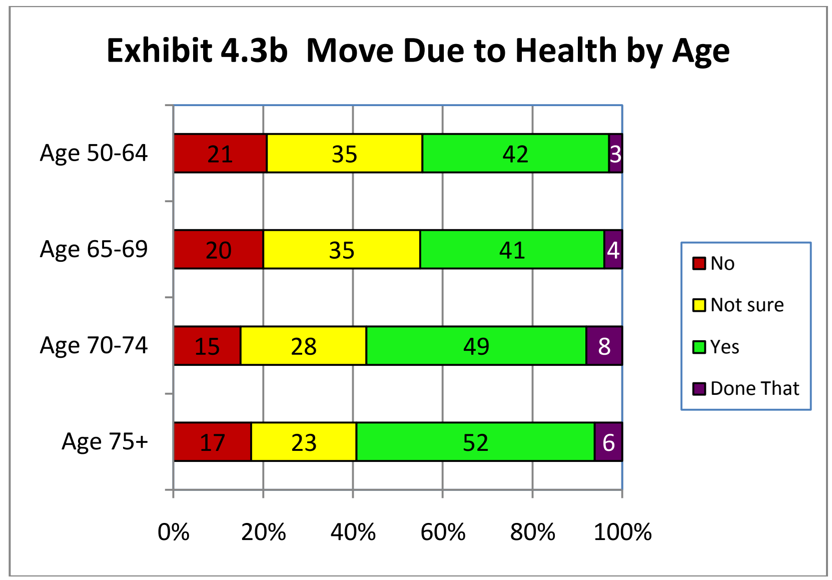
- Actual decisions are not completely consistent with willingness to use an option. The most common strategy for using equity as a source of income for retirement is getting a home equity line of credit to borrow against when funds are needed. Almost one out of 10 (9%) have done this, but the theoretical appeal of this option is less than downsizing or selling/renting. Reverse annuity mortgage has the least appeal (7%) and the least uptake (<1%).

- Looking at results for those who have already acted is noteworthy, since some of those taking action remain homeowners. It also gives a stronger sense of what happened among those former homeowners who now rent.

- Among current homeowners, some 2% have downsized and 2% have rented part of their home. Far more (9%) have taken a home equity line of credit. By contrast, that is the third choice option among former homeowners, who have mainly just sold or downsized before selling. Reverse mortgages were not a big factor in either group.







The Role of Health

- More than four out of 10 say they will probably/definitely have to sell their house someday because of limited mobility or illness. Some 4% have already done so, but to put this into perspective, **this means that of the 9% of our sample who were former homeowners, 44% sold their home because of limited mobility or illness.**

- The expectation of needing to move due to health increases with age, but the 10% increase over 25 years (42% to 52%) is not very much. The proportion actually moving due to health seems to increase from age 70 onwards.

4.2 Decision Influences

- Throughout the report, we have talked about economic influences in terms of income or amount saved. In this section, we look at the comparative value of home equity versus other savings. As well, given the emotional impact of selling a long-time home, we look at some attitudes that relate to willingness to use home equity.

Comparative Value

- Two out of 10 don't know how the value of their savings/investment compares to the value of their house. Only two out of 10 have savings/investment worth more than their home ('Savings worth much more' plus 'Savings worth more'), while more than four out of 10 say their home is worth more than their savings ('Home worth more' plus 'Home worth much more'). For the remainder, the value of the home and savings are comparable (+/-10%).

- Correcting for 'Not sure' responses, we find that only one-quarter of households have savings that are worth more than their home, while two out of 10 find them of roughly equal value. **For more than half of households, their home is worth more than their savings. In fact, three out of 10 say their home is worth at least 50% more than their savings.**

- The likelihood of savings being worth more than the home increases directly with household income. Under $50k household income, fewer than two out of 10 have savings worth more than their home. At $100k+ income this doubles to more than four out of 10.

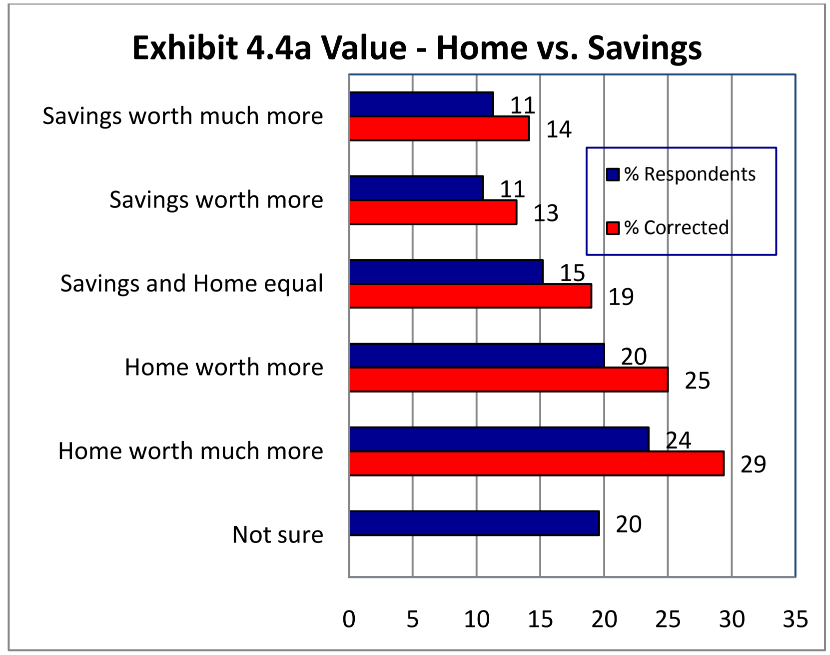
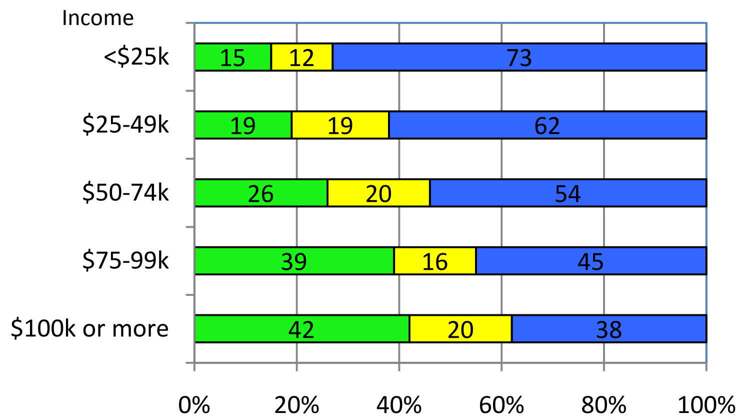


Exhibit 4.4b Compare Value by Income



Attitudes

- In total, we asked seven attitude questions relating to willingness to use home equity. Three questions clearly distinguish those who want to leave their equity intact. The other four questions identify those who are more willing to use their home equity to generate income. In our view, the contrast is largely one of emotion versus economic rationality.

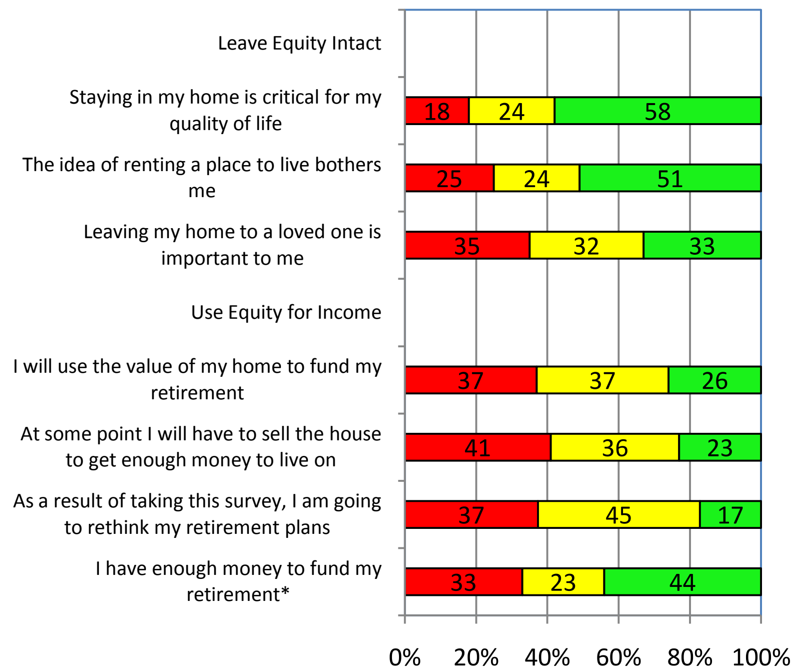
- Looking first at the 'Leave Equity Intact' group, some six out of 10 say that 'Staying in my home is critical to my quality of life'. Half say 'The idea of renting bothers me'. For one out of three, the barrier to selling a home is that 'Leaving my home to a loved one is important to me'.

- For the group willing to use home equity, responses are not nearly as strong. One-quarter show more flexibility saying 'I will use the value of my home to fund my retirement' and 'At some point I will have to sell the house to get enough money to live on'. Borrowing from an earlier section of the report, the most critical attitude is that nearly one out of three disagree with saying 'I have enough money to fund my retirement'.

- One out of six will rethink their retirement plans as a result of taking this survey. Looking at people who didn't know critical information about their finances, we estimate the number should be as high as one out of four.

- While we have not attempted to segment the responses based on these attitudes in a formal manner, we are confident that attitude segments can be built. But based on what we saw in section 4.1, **willingness to use home equity does not translate into corresponding action until economic circumstances drive people to act.**

Exhibit 4.5 Attitudes About Home



** People who DISAGREE are more likely to use equity for income*

5.0 CONCLUSIONS

- In this chapter we discuss some of the key findings and the conclusions we draw from them. Our comments on these findings are informed by hundreds of past Canadian studies in this field including many done by the author of this report.

- When thinking about the findings of the study, it is useful to bear in mind that homeowners have had enough income and discipline to buy a home in their past. According to Statistics Canada (Report 11F0019M), just a little over three-quarters of Canadians age 50 and over have homes (77%). In our sample the proportion is more than nine out of 10 (91%).

- **Homeowners have a wider range of investments than the general population** *(Statistics Canada, Survey of Financial Security, 2006)***.** In this study, we find relative strength for income sources and investment ownership.
    - Almost half have unsheltered savings or investments, that is to say, investments outside an RRSP, RRIF or pension.
    - Seven out of 10 have financial assets potentially including GICs, investment funds, stocks, bonds and more.

- Nonetheless, **having a home does not guarantee that there is enough put aside for retirement.** About one out of eight have no access to any of the common sources of retirement income we asked about and three out of 10 have no financial assets. **Half of all households believe they will exhaust their retirement savings in their first ten years of retirement.**

- Based on responses to the survey, the median amount of money saved for retirement is just under $100,000. Only two out of 10 have more than $250k saved. **We believe the estimate of amount saved is quite low and largely driven by under-estimates of the value of company pension plans,** which Statistics Canada reports as roughly equal to CPP and OAS combined **(***Statistics Canada,* **"***Replacing Family Income During the Retirement Years: How are Canadians Doing?", July 2010)***.** Given that half of those with under $100k saved have company pension plans, and assuming a life expectancy of 17 years after retirement, we would estimate that the actual value of savings is at least in the $100-249k range for half of this group.

- **Many Canadians haven't given much thought to their retirement**. In terms of amount saved for retirement, we find two out of 10 don't know how much they have put away. Based on an almost certain under-estimate of the value of private pension plans, **we estimate that the true percentage of people who don't know how much they have saved is probably closer to half of those age 50 and older.** And while one-quarter don't know if what they have saved is enough, the actual income experience of the retired part of our sample results in nearly six out of 10 retirees saying they have enough saved.

- **Those with property debt at retirement will feel the pain of paying it back.** The median amount that people expect to draw from their savings and private pension plans is about $30k per year (roughly $25k after taxes depending on sources)**.** For the one-quarter of Canadians that will have property debt at retirement (median value $71k), they will need to use one-third of their draw to pay off their property debt in 10 years (assuming interest rates in the 3-4% range for 10 years)**.**

- **Until people are confronted with the need to generate income, they won't accurately appraise their alternatives.** When presented with five ways of capitalizing on home equity, four out of 10 were unwilling to consider any option. Among those who were willing to consider some of the options, the alternatives that looked best when assessing possible future behaviour did not correspond to what people have actually done in the past. Downsizing looks like a great idea in theory, but people are more likely to take a home equity line of credit instead. **While it is clear that the decision to use home equity has a heavy emotional component, the findings make it clear that economics are the primary driver of action.**

- **The biggest emotional decision is selling off a home and becoming a renter.** The attitudinal data points to this conclusion. Based on past behaviour, we also know that some 44% of those who sold their home and moved into rentals were driven by either illness or other limitations on their mobility. **It takes an enormous force, either economic and/or health-driven, to cross the divide from homeowner to renter.**

APPENDIX 1: QUESTIONNAIRE

RELIANCE ON HOME EQUITY (Field Version, 2013-01-07)

A. SCREENER

1. Do you own or rent your home? By "home", we mean houses, condos and any other type of residence that you can buy.

   1 Own now
   2 Rent now, but sold a house in the past ten years
   2 Rent [Terminate the interview]
   9 Not sure [Terminate the interview]

2. What is your current age?
   _______ years [If under 50 or over 104 years old, terminate the interview]

   2.1 ONLY IF REFUSE/DK, ASK: Are you at least 50 years old?
   1 Yes
   2 No [Terminate the interview]
   8 Refuse [Terminate the interview]

3. Are you: [Set quotas with no less than 48% per gender]
   1 Male
   2 Female

4. What province/territory do you live in? [Use for regional quotas based on census. Record CMA if available from panel database]

1	BC / YT	6	QC
2	AB / NT / NU	7	NB
3	SK	8	NS
4	MB	9	PE
5	ON	10	NL
		88	Outside Canada

   [Terminate]

5. <Add FSA Question>

6. Are you currently retired?
   1 Yes, fully retired
   2 Yes, but I do a bit of paid work (up to 10 hours per week)
   3 No, still working (more than 10 hours per week)
   4 Not retired but not working

7. [Ask only if '3' is selected in A.5] When do you expect to retire? Would you say…?
   1 In the next two years
   2 More than 2 years but less than 5 years from now
   3 More than 5 years but less than 10 years from now
   4 10 or more years from now
   9 Don't know/Not sure

B. SOURCES OF INCOME FOR RETIREMENT

Now we would like to ask you a few questions about sources of income for retirement. When answering all of the following questions, please answer for your entire household.

1. Which of the following are sources of money for your retirement? [Check all that apply]
   1 Company pension plan

2 RRSP (Registered Retirement Savings Plan) or similar retirement <u>savings</u>
3 An annuity that pays you a regular income for life
4 RRIF (Registered Retirement Income Fund) or similar retirement <u>income</u> fund
5 Savings outside of an RRSP or RRIF
6 None of the above

2. Which of the following types of investments do you own? [Check all that apply]
1 GICs or term deposits
2 Mutual funds, segregated funds or Exchange Traded Funds (ETFs)
3 Individual stocks or bonds (not part of a mutual fund)
4 Other investments including hedge funds, income trusts, whole/universal life insurance
8 None of the above

3. Including your company pension plan, but excluding government retirement plans, real estate and businesses you might own, how much do you have saved/invested for retirement in total? Is it?
1 Less than $100,000
2 At least $100,000 but less than $250,000
3 At least $250,000 but less than $500,000
4 At least $500,000 but less than $1 million
5 More than $1 million
9 Don't know/Not sure

4. During your retirement, and including company pension payments, how much do you think you will need to draw from these savings and investments each year?
1 Less than $20,000 per year
2 At least $20,000 but less than $40,000
3 At least $40,000 but less than $60,000
4 At least $60,000 but less than $80,000
5 At least $80,000 but less than $100,000
6 $100,000 or more per year
9 Don't know / Not sure

5. Based on your savings/investments and the income they generate, and considering your expected need to draw on this money each year, do you think you have enough money to fund your retirement? Would you say…?
1 Definitely not
2 Probably not
3 Not sure
4 Probably have enough
5 Definitely have enough **[Skip to section C]**

6. How many years into retirement do you think your savings/investments will last if you take out the money you need each year?
0 Less than 1 year
1 1-5 years
2 6-10 years
3 11-15 years
4 16-20 years
5 20-30 years
6 More than 30 years
7 The money won't run out in my/our lifetime

C. RESIDENTIAL PROPERTY [IF A.1 IS '2', SKIP TO SECTION D]

1. In addition to the home/condo you live in, what other residential property do you own? [Circle all that apply]
   1 None [Skip to C.3]
   2 Cottage/Second home you use
   3 Property for a family member to use
   4 Rental or income-generating property
   5 Other (specify) ___________________

2. Do you have a mortgage, a loan or a line of credit to pay for the cost of any of these properties?
   1 Yes
   2 No
   3 Not sure

3. Have you used your principal residence or your equity in your principal residence as security for any borrowing including a mortgage, personal loan or line of credit?
   1 Yes
   2 No
   3 Not sure

4. Is your home/condo fully paid off?
   1 Yes [Skip to section D]
   2 No
   3 Not sure

5. Will you have your home/condo fully paid off at the time you retire?
   1 Yes [Skip to section D]
   2 No
   3 Not sure

6. How do you plan to pay down your home/condo debt after you retire? [Circle all that apply]
   1 Use a lump sum retirement bonus
   2 Pay it out of retirement income
   3 Work part time to cover the cost
   4 Sell off other property or assets to pay it down
   9 Don't know/Not sure

7. How much home/condo debt will you need to pay off after you retire?
   1 Less than $25,000
   2 At least $25,000 but less than $50,000
   3 At least $50,000 but less than $100,000
   4 At least $100,000 but less than $250,000
   5 $250,000 or more
   9 Don't know/Not sure

8. Prior to this survey, how worried were you about having to pay down debt during your retirement. Please rate using a 1-5 scale where 1 means 'Not worried at all' and 5 means 'Extremely worried'.

   _____ [Enter rating]

9. Prior to this survey, have you thought about how paying down debt will affect the income you have available for your day-to-day retirement living?
   1 No, not at all
   2 Have thought about it, but don't really know the impact

3 Have a good idea of the impact, but no real plan to deal with it
4 Know the impact and developed a plan to deal with debt in retirement

D. Principal Residence as a Source of Income for Retirement

1. Have you ever thought about the possibility of selling your home to generate income you will live on in retirement?
   1 No, not at all
   2 Yes, thought about it once or twice
   3 Yes, thought about it often
   4 Yes, already sold a home to generate retirement income
   9 Not sure

2. There are several alternatives to selling your home and moving that can generate income based on the value of your home. Using a 1-5 scale where 1 means 'definitely not', 3 means 'not sure' and 5 means 'definitely would', please rate your willingness to consider each of the following ways of earning money from your home. If you have already done this, please rate this a '6'. [Randomize order]

   a. _____ Rent out part of your home
   b. _____ Sell, downsize, and use the difference to generate income
   c. _____ Sell, invest/use the money, and rent a place to live
   d. _____ Get a home equity line of credit to borrow against your home value when you need extra funds
   e. _____ Get a reverse annuity mortgage which gives you about 40% of the value of the house and the right to live in it for your lifetime in exchange for signing the house over to the lender.

3. Do you expect that someday you will have to sell your home and move to another residence because of limited mobility or illness? Would you say?
   1 Definitely not
   2 Probably not
   3 Not sure
   4 Probably will
   5 Definitely will
   6 Have already done that

4. How does/did the value of your home compare to the amount of money you have saved/invested for retirement? Would you say..?
   1 My savings/investments are worth <u>much more</u> (50% or more) than my home
   2 My savings/investments are worth <u>more</u> (11-49%) than my home
   3 My savings/investments are worth <u>about the same</u> (+/-10%) as my home
   4 My savings/investments are worth <u>less</u> than my home
   5 My savings/investments are worth <u>much less</u> (50% or more) than my home
   9 Don't know / Not sure

5. Using a 1-5 scale where 1 means 'Strongly Disagree', 3 means 'Neither agree nor disagree' and 5 means 'Strongly Agree', please indicate how much you agree with each of the following statements. [Randomize order]

a. I will use the value of my home to fund my retirement
b. Staying in my home is critical for my quality of life
c. The idea of renting a place to live bothers me
d. Leaving my home to a loved one is important to me
e. At some point I will have to sell the house to get enough money to live on
f. As a result of taking this survey, I am going to rethink my retirement plans

E. Additional Demographics

Now we would like to ask a few additional questions for classification purposes only.

1. Are you…
   1 Married/common-law/civil union
   2 Single, never married
   3 Divorced or separated
   4 Widowed
   8 Don't want to say

2. Is your household pre-tax income…
   1 Less than $25,000
   2 $25,000 - $49,999
   3 $50,000 - $74,999
   4 $75,000 - $99,999
   5 $100,000 - $149,999
   6 $150,000 - $249,999
   7 More than $250,000
   8 Don't want to say

Thank you for taking part in this survey [etc.]