Research Insight

December 2018

Homeownership and the Financial Security of Canadian Retirees

THE RESEARCH

The goal of this research is to study the role of homeownership as a component of financial security in retirement. This study examines the value and importance of homeownership, its desirability and its future role as a component of old-age financial security.

PROJECT OVERVIEW

CMHC commissioned a literature review of research focused on the role homeownership plays in retirement in Canada, by comparison with Germany and Australia. Typical Canadian retirees build their financial security around four pillars. The first and second pillars are public and private pension plans, the third is individual savings and the fourth is homeownership. This review focuses on key variables relevant to retirement provisions, including homeownership rates, pension systems, and demographics.

Fast Facts

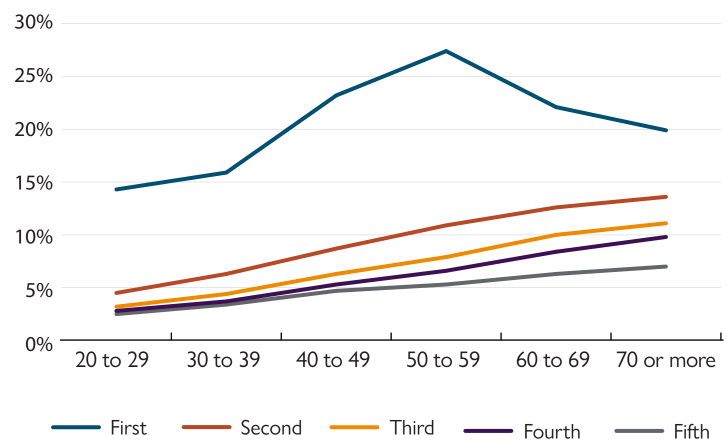
- As homeownership rates among young Canadians remain high, there is an expectation that housing will continue to contribute to retirement wealth.
- The funds generated from housing to maintain pre-retirement consumption levels are equivalent to approximately 10% of pre-retirement income.
- In 2006, homeownership provided on average $6,544 net revenue for households aged 60 to 69 and $5,793 for households aged 70 or older.
- The greatest relative contribution of housing to income is observed for lower-income quantiles and older individuals (see figure 1).

KEY FINDINGS

- Provisional analysis shows that the Canadian pension system is viable despite an aging population.
- Notwithstanding the positive effects of homeownership on incomes of retirees, we should not consider homeownership as a tool for financial security. Instead, focus should be on the use of pension and retirement savings plans.
- Reliance on homeownership and individual savings increases income inequality among retirees and negatively affects voting in favour of social reforms.
- Currently retired homeowners are reluctant to tap into the equity in their homes, so there is an opportunity to investigate new tools to increase accessibility to home equity in retirement.

Even though higher-income individuals have higher-value properties, the contribution to earnings from housing is greater for lower-income households.

Figure 1: Percentage increases in homeowner net income by age group and income quintile (in ascending order)



Source: Brown, Hou and Lafrance (2010) and consultant's own calculations.

IMPLICATIONS FOR THE HOUSING INDUSTRY

Homeownership can provide supplementary income to retirees. However, attempts to increase homeownership rates as a way to augment retirement savings are associated with further growth of household debt, which can endanger the stability of the financial system. Instead, the report recommends focusing efforts and resources on improving the existing pension system.

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FURTHER READING

Full report – *Homeownership and the Financial Security of Canadian Retirees* (https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research_2/homeownership_and_the_fscr_en_.pdf)

Project Manager(s):
Richard Gabay and Annie Vallières
For further information, contact Irakli Japaridze
Housing Finance
Canada Mortgage and Housing Corporation

Consultant:
Mario Fortin, PhD

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ALTERNATIVE TEXT AND DATA FOR FIGURES

Figure 1: Percentage increases in homeowner net income by age group and income quintile (in ascending order)

Age	First	Second	Third	Fourth	Fifth
20 to 29	14.3%	4.5%	3.2%	2.8%	2.5%
30 to 39	15.9%	6.3%	4.4%	3.7%	3.4%
40 to 49	23.2%	8.7%	6.3%	5.3%	4.7%
50 to 59	27.4%	10.9%	7.9%	6.6%	5.3%
60 to 69	22.1%	12.6%	10.0%	8.4%	6.3%
70 or more	19.9%	13.6%	11.1%	9.8%	7.0%

Source: Brown, Hou and Lafrance (2010) and consultant's own calculations.