

Should You Rent or Own in Retirement?



If you're approaching retirement, it can be both exciting and stressful. Sure, after years of juggling a full workload along with family and other obligations, having the freedom to set your own schedule is enticing.

However, given the recent spike in inflation and subsequent high interest rates, the basic cost of living has jumped significantly. Money isn't going nearly as far as it used to, and you might be wondering if you've actually saved enough to enjoy your retirement years.

Running out of money is a legitimate concern. Many retirees live on a fixed income, such as government benefits, a company pension plan and maybe RRIFs or annuities. While some income sources are indexed to inflation to help keep pace with rising costs, ultimately you're drawing down on your money in retirement, rather than growing wealth as you did when working. Nobody wants to experience a shortfall that may require amending retirement plans or result in financial insecurity.

Should you sell your home?

One possible solution as you enter retirement is to sell your home and rent instead. Although renting isn't typically a goal for people who already own their home, let's consider the potential benefits of this strategy.

Real estate values in Canada have declined somewhat as higher mortgage rates dampen the enthusiasm of prospective buyers. However, if you've owned your home for several years or even decades, chances are you've built considerable equity in that property as housing prices have risen steadily over time.

If you sell your home and rent when you retire, you'll have a tidy sum of cash available. Some of it can be put toward regular living costs and discretionary expenses like a vacation, a new vehicle or pursuing hobbies. You may also wish to invest for the future. With guidance from your advisor, you can decide how to allocate your money across various investment products. Having the potential to grow your assets through investing is a proven way to extend how far your money can stretch in retirement.

Over longer periods, the stock market has generated higher returns than real estate (here's [one study](#) as an example), so relying on the value of your home might not be the best option to achieve long-term growth. Also, investing in a range of securities provides diversification as you tap into different sources of growth potential. This approach may help reduce overall risk if one (or more) of your investments declines in value at a given time. On the other hand, when the bulk of your assets is invested only in your home, you may face a sharp decline in wealth if the real estate market weakens.

Three other benefits of renting

1. Home ownership involves maintenance and repair costs, property taxes, insurance, utility bills and other expenses that add up in a hurry. The older your home, the higher the expenses could be. Also, the older you are, the less likely you'll want to deal with the maintenance and repairs. Renting will shift the burden to your landlord.
2. Property taxes usually increase each year, taking a bite out of your retirement savings and cash flow. If you sell your home, you avoid property taxes, plus capital gains from the sale of a principal residence are tax exempt, leaving more money in your pocket.
3. Selling your home gives you flexibility to decide where to live. Maybe you want to move to a warmer climate or be closer to children and grandchildren. Perhaps relocating near parks, golf courses or other preferred amenities is appealing. Selling also provides an opportunity to downsize from a large house to a condo or apartment, for a more carefree lifestyle with less hassle and fewer responsibilities.

Speak with your [advisor](#) for guidance on which approach is best suited to your unique needs and goals.

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