

Downsizing as Retirement Smartsizing

Do you have a “guest room” in your home that hasn’t seen a guest in years? A basement of clutter you haven’t looked through for even longer? Maybe you’re considering retirement – not just for yourself, but also for your lawnmower and snow shovel.

Downsizing can carry a negative association of a meagre life in a cramped, empty nest. In reality, downsizing can be healthy for your lifestyle and your wallet and doesn’t necessarily involve shrinking your living space. Think of it as rightsizing – choosing to live somewhere that effectively supports your finances, family needs and physical abilities.

Why rightsize your home

Many Canadians are “house rich, cash poor,” meaning the majority of their net worth is tied up in their homes. According to the National Bank of Canada, average spending on housing eats up almost half (43%) of Canadians’ pre-tax income¹. Though home affordability improved throughout 2019, average spending is still well above the 30% affordability benchmark used by the Canada Mortgage and Housing Corporation. That means you could be investing in the equity of your home at the expense of your retirement savings. For retirees and pre-retirees, rightsizing can represent an attractive opportunity to use the value of their home to fund their golden years.

Rightsizing options

Rightsizing is about capitalizing on where you live to support the lifestyle that works best for you. Examples include selling your current home and moving to a smaller one, such as a condominium, or relocating to a neighbourhood that’s either less expensive and/or closer to amenities. Some rightsizers sell and then move to a rental unit. An alternative to moving is to renovate and turn extra living space into rental property that provides additional retirement income. Remember that in retirement, homeownership can become more living expense than investment. Your income is fixed, but the cost of running your home isn’t and has the potential to increase over time. In that sense, it’s not so much the size of your space that matters as its net cost to you. You don’t want your dream home to be a money pit that takes away from enjoying life.

Getting started

At the same time, you may no longer want or have capacity for the upkeep of a big house. There are ways to determine the size of home you truly need to enjoy the lifestyle you want. Taking these steps can also help you declutter and free up living space while providing a simple and effective means to boost your home’s resale value.

Step 1: Go on a walking tour of your space, paying close attention to big items, like furniture and exercise equipment, as well as smaller appliances. Tag or note the ones you hardly use.

Step 2: Check your closets and shelves for things you aren't using and that are likely taking up unnecessary room – clothing you haven't worn in more than a year is a good example.

Step 3: Organize and sort the items you're ready to part with into what can be given away to family or friends, sold, donated to charity or free recycling services. Disperse accordingly.

Step 4: Identify areas of your home – like the finished room in your basement that's full of boxes – that you're using mainly for passive storage. Living space that you use for storage may indicate you have more home than you need.

Step 5: After completing your audit, take stock and be realistic about the amount of space you need to complement your retirement plan so that you don't over (or under) downsize. For example, if you like hosting family and friends, you'll need space to accommodate guests. If you envision your retirement including a lot of travel, a small pied-a-terre may suit you better than a 3-bedroom house.

Wondering if rightsizing your home is the right decision for you?

Whether you're already retired or just starting to prepare, now is the time to look at what your home really costs – in money as well as time and effort. Reducing your mortgage debt and expenses by rightsizing can make a real difference financially and as your physical abilities diminish with age. You may even be able to eliminate your mortgage altogether and have money left over.



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¹ <https://www.nbc.ca/content/dam/bnc/en/rates-and-analysis/economic-analysis/housing-affordability.pdf>

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