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Intelligence MEMOS

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From: John Stapleton and Colin Busby

To: Retirement Observers

Re: OUSES ARE NOT PENSIONS, SOWING CONFUSION IN DEBATES ON THE INTERGENERATIONAL DIVIDE

Canadians approaching retirement are, on paper, wealthier than any previous generation. Statistics Canada's Survey of Financial Security shows that the net worth of households aged 55 to 64 rose by 91 percent on average, from $457,300 to $873,400, between 1999 and 2023, after adjusting for inflation.

That is an extraordinary accumulation of wealth by any measure. Politicians point to it. Financial commentators celebrate it. It motivates serious and important discussions around intergenerational equity in Canada and millions of Canadians quietly count on it as the foundation of their retirement security.

However, most of that wealth is sitting in the ground and the walls of a house. And a house, it turns out, is a surprisingly poor retirement income tool.

Housing is not a passive financial asset in the manner of a pension or an RRSP. It is something Canadians must consume. You cannot simply sell your house and pocket the proceeds, because the moment you do, you need somewhere to live. Research from HEC Montréal's Retirement and Savings Institute **puts** a striking number to this constraint: In 2019, the average homeowner converting their home to an annuity could generate roughly $1,750 per month – less than the national average rent of $1,940 at the time.

Selling your house, in other words, does not easily free up capital.

The options available to retirees who want to tap housing equity are all constrained in similar ways. Downsizing forces difficult decisions on where to live, as the purchase of suitable housing in one's neighbourhood of choice may be quite expensive. One might have to re-enter the same overheated market, with transaction costs and disruption attached. Moving further away could mean needing to find a new family doctor and make new friends.

Reverse mortgages allow homeowners to borrow against their equity while remaining in their home, but this naturally erodes the estate. Renting frees up capital but exposes retirees to rent increases and housing insecurity in their most vulnerable years. None of these is the clean liquidity event that the headline wealth number implies.

When converting the non-housing private wealth of Canadians near retirement – their RRSPs, pension and investment accounts – into an equivalent stream of retirement income, the income those assets could generate **had barely improved** over two decades, despite large gains in nominal wealth.

The reason is the twin drag of longer lives and lower interest rates. The higher cost of purchasing annuity income almost entirely offset the increase in asset values over the period. Canadians got wealthier. Their expected retirement standard of living largely did not follow.

This common misunderstanding has policy consequences.

For decades, as employer-sponsored defined-benefit pension plans declined and were replaced by defined-contribution plans and individual savings vehicles, the implicit assumption was that Canadians would fill the gap. And a significant number did. And rising home values played a role.

But housing only functions as retirement saving if the next generation of buyers can afford to enter the market at all.

The wealth of today's retirees and the retirement security of tomorrow's workers are not independent variables. They are linked through the same housing market, and a system that generates paper wealth for one group by raising barriers for another is not a foundation for broadly shared retirement security. It is also a tremendous source of friction, where policy solutions are difficult.

What should policymakers take from this?

First; the headline increase in household wealth near retirement is substantially less reassuring than it appears. The net worth numbers are real, but they overstate financial readiness in ways that standard reporting rarely captures or explains.

Second; Canada's retirement income system – built around the assumption that private savings and public pensions together provide adequate security – is working well for many, but not for all. Carrying debt into retirement, holding wealth concentrated in an illiquid asset, and facing longer lives with more modest income streams is a real possibility for some.

When considering reforms to Canada's social policy structure, policymakers ought to understand that there are persistent financial concerns around retirement. Things have improved for lower income groups, with greater wealth accumulation, and notably the expanded Guaranteed Income Supplement contributing to lower poverty rates. The financial pressures for middle-income earners **without a private pension** or a home are material concerns.

On the other side of this issue, the policy levers to improve housing affordability for younger generations deserve ongoing attention.

Nothing is easy. Provinces can recast the funding tools municipalities rely on, but cities themselves control most of the **policy tools**. Ways to reduce development charges and expand zoning requirements to improve housing supply are a must.

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