Retiring Without A Home

December 2019

For most millennials, or Generation Y, the dream of home ownership may be just that - a dream. A recent poll commissioned by KPMG in Canada of 2,500 Canadians, including 1,000 millennials between the ages of 23 and 38, found that 72 per cent of millennials want to own a home, but nearly half (46 per cent) think it is just a pipedream.[1] A majority believe that it is much more difficult for their generation to afford a home than it was for their parents.

It's not difficult to understand these concerns given that the national average price of a home in Canada now costs north of $600,000[2], an increase of nearly 40 per cent in the last five years – a rate that far outstrips the rise in household income. For first-time buyers in Toronto and Vancouver, where prices have soared even higher, the dream is even more elusive. Almost two-thirds (63 per cent) of millennials in the Greater Vancouver Area (GVA) called owning a home a pipedream, compared to over half (54 per cent) in the Greater Toronto Area (GTA), the KPMG poll reveals.

A decline in homeownership rates will have a dramatic impact on the ability of many millennials to retire comfortably.

Home ownership has traditionally been a key pillar in funding Canadian retirement plans, providing the opportunity to downsize and live off the appreciated, capital-gains free profits. Or, it simply means not facing monthly rental costs once you've left the working world. However, for many millennials, this won't be an option and they are not even factoring it into their retirement planning.

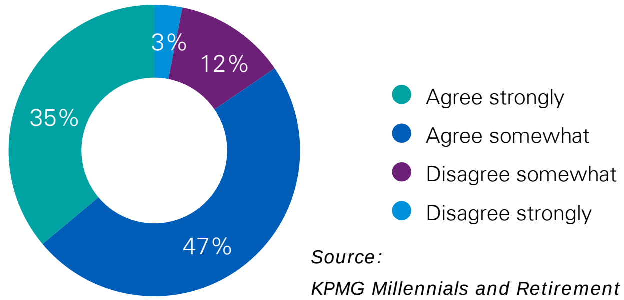
For those who have been able to buy a house, many (38 per cent) worry that by the time they retire, their house won't be worth what they spent on it. That number jumps to 43 per cent among GVA millennial homeowners, reflecting both their belief they overpaid to enter the housing market and their lack of confidence in the market to sustain current levels in the long term.

Changing retirement needs of millennials

The Canadian retirement system has three main pillars: Canada/Quebec Pension Plan (targeted to replace 25 percent of an individual's income upon retirement); universal government benefits, such as Old Age Security (OAS), and the Guaranteed Income Supplement (GIS) for low-income earners; and, workplace pension plans and personal savings/investments, such as Registered Retirement Savings Plans (RRSPs) or Tax-Free Savings Accounts (TFSAs). The latter – personal savings/investments - is intended to provide most of the retirement income.

[1] The survey was conducted from October 11-17, 2019 for KPMG in Canada by Methodify, a research automation platform. [2] MLS® Home Price Index Benchmark Price (October 2019)

Millennials are now the largest generation of Canadians, accounting for 27 per cent of the total population. A recent Statistics Canada report noted that they face different challenges in building wealth than previous generations of young Canadians, despite having higher incomes than previous cohorts, in part because of their higher educations.[3] By 2050, a majority of millennials believe that they will need more support from CPP and government benefits when they retire.



Source:
KPMG Millennials and Retirement Poll, 2019

Millennials are falling behind financially

As the most educated generation, millennials have incurred high levels of student debt and those who have entered the housing market have taken on larger mortgages relative to their incomes than those who came before them, according to Statistics Canada.

That's made it challenging for millennials to save for retirement. If they rent in major urban centres, like the GTA or GVA, their rents are potentially higher than their mortgage. But, if they buy, they need to come up with significant funds for a down payment and, in most cases, are still saddled with large mortgage debt. Canada Mortgage Housing Corporation (CMHC) advises that Canadians spend no more than 30 per cent of pre-tax earnings on housing.[4] Yet, as pointed out by RBC Economics, Canadian households are spending much more than 30 per cent – indeed, they are spending as much as half their income to cover ownership costs.[5]

Moreover, more than two in five (42 per cent) millennial homeowners admit they've put their retirement savings on hold to pay down/off their mortgage , the KPMG poll finds. Compared to earlier generations, the differences in affordability are stark, according to research conducted by the non-profit group Generation Squeeze.[6,7] In 1976, the price of an average home in Canada was $213,030 and median full-time earnings for a 25-to-34-year old were $54,700, adjusted for inflation; whereas, in 2017, a home averaged $510,179 and the median income was $49,800. Put differently, 40 years ago, a house cost a little under four times one's annual salary; today, it's better than 10 times more. And, when it comes to saving for a downpayment, it now takes an average of 13 years to save for a 20 per cent down payment; whereas, it took five years in 1976.[8]

No doubt, supply issues play a key role in both the affordability challenge – and potential solutions. CIBC Economics has previously pointed out that specific policies are needed to increase the supply of purpose-built rental units. The "trajectory is not written stone. It's largely a function of policy". CIBC adds that the federal government's ability to help is limited since national policies are too blunt to deal effectively with a specific market.[9]

How will millennials fund their retirement costs?

On average, a healthy Canadian retirement plan is one with a diverse set of savings of about $900,000 (assuming a targeted retirement income of $28,000 to $42,000 per annum for a middle-class individual, including government benefits).[10]

Nearly four in five (78 per cent) millennials believe that by 2050, when they are reaching the traditional retirement age, there will be a significant shortfall in retirement savings. Strikingly, but not surprising in many respects, GVA millennials are the least optimistic in Canada: Just 53 per cent feel good about the future of retirement, and an overwhelming number (81 per cent) believe that by 2050, there will be a significant shortfall in retirement savings.

More than one in five (22 per cent) of GVA millennials say that home ownership plays a "huge" role in achieving a financially stable retirement. They describe it as their "only option" as they "can't meet the mortgage/interest payments and other

[3] Statistics Canada, Economic Insights, Economic Well-being Across Generations of Young Canadians: Are Millennials Better or Worse Off? (April 2019)

[4] Canada Mortgage and Housing Corp., February 2019

[5] RBC Economic Research, Housing Trends and Affordability (June 2019)

[6] Financial Post, June 7, 2018;

[7] *Straddling the Gap*, Generational Squeeze, June 2019

[8] *Ibid.*

[9] CIBC Economics Report, Rental market must be part of the solution (March 2017)

[10] *How Much Do You Need to Retire Well?*, Canadian Business, 2012

expenses and save for retirement at the same time." That compares to 18 per cent among GTA millennials, 15 per cent for millennials outside of Montreal, Toronto, and Vancouver, and 13 per cent for millennials in the Greater Montreal Area.

According to our poll, the vast majority of millennials – and, indeed, all Canadians – believe they will need more support from government and Canada/Quebec Pension Plan to meet their income needs in retirement, and they want Ottawa to take action such as:

- Make housing more affordable
- Make it easier to use RRSPs for down payments
- Raise TFSA limits
- Implement a new registered savings system, like RESPs for education savings, to make housing more affordable.

We're concerned that millennials will not be in the same position to retire as the generations that preceded them. A variety of factors hampers their ability to accumulate the wealth needed to retire comfortably that will require creative and bold thinking. This is a clear signal for the pension fund industry, retirement specialists, and public sector officials to engage in a national dialogue on housing affordability and the future of retirement for Canada's largest generation.

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