Canadian seniors racking up debt to fund bigger homes, glitzy lifestyles

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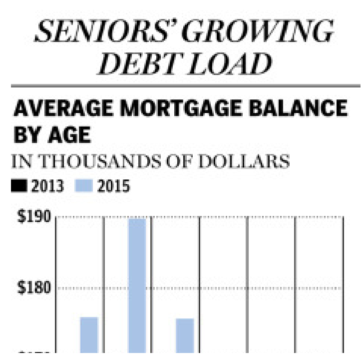
More Canadian seniors are getting comfortable with debt, which allows them to buy nicer homes and fund more vacations. Fotolia

Canadian seniors are getting a lot more comfortable with debt and a growing number are using it to finance their lifestyle, including home purchases, according to an exclusive survey provided to the Financial Post.

The survey conducted by debt rating agency Equifax for HomEquity Bank, at the end of July, found that a number of Canadians over 75 are still dealing with a mortgage — and their numbers are rising.

“They just don’t have enough money,” said Yvonne Ziomecki, senior vice-president of marketing and sales of HomEquity Bank, of the new lifestyle seniors are aspiring to. “We have a new term we have been using, right sizing. They are not downsizing. They don’t really need bigger homes, but they move into a house that has all the upgrades.”



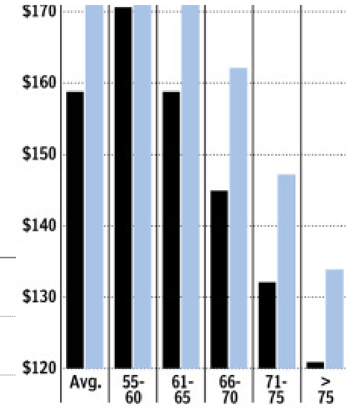
HomEquity, which provides reverse mortgages, says those types of “downsized” homes are often the subject of loans. Consumers can get a reverse mortgage as long as they have 55 per cent equity in a home.

While seniors with mortgages are still a small share of the market, the study did find 11.3 million Canadians 55 or older have some sort of debt. Of that figure, about 1.87 million are carrying a mortgage which is up 20 per cent in two years.

Outstanding mortgage balances are up for every segment of seniors, which for the purposes of the survey was anyone over the age of 55. In the 75-and-over category, the average senior with a mortgage had $133,944 outstanding, up 11 per cent from two years ago.

What’s going on? Some seniors are just adjusting to a lifestyle where debt will get them nicer homes, fund more vacations or even help their adult children.

“A lot of people I talk to, they just don’t really care. This is how they manage their finances and they are perfectly comfortable with it,” Ziomecki said.



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A poll from CIBC out this month found two-thirds of Canadian parents claim adult-children are cutting into their retirement savings.

Vancouver-based certified financial planner Clay Gillespie said low interest rates have encouraged some seniors to take on more debt, free of the worry that they need to pay it down before retirement.

“I’ve seen people take out lines of credit against their house to help their children buy a house since house prices have increased so much in the last 10 years. I’ve seen individuals continue to support adult children, which does not allow them to pay off debt. And lastly, I’ve seen individuals that are using debt to finance their lifestyle. All of these can be dangerous if not done properly,” Gillespie said.

The HomEquity Bank study, which was based on Equifax’s own internal data, found that the number of seniors in debt is also increasing in other credit categories, such as auto loans, bank loans, lines or credit and credit card debt. With the exception of retail cards and banks loans, average balances have been going up, too.

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Gillespie’s fear is what happens to seniors if interest rates rise, especially if they no longer have the income to support their lifestyle.

“A significant portion of their retirement income will have to be used for the servicing of this debt and paying this debt off,” he said, adding that his own studies have shown 30 per cent of seniors go into retirement with $10,000 of debt or more. “Mathematically what this means is that they have to increase their income in retirement and pay higher taxes to pay off their debt, and this will reduce how long the retirement savings will last.”

Laurie Campbell, chief executive of Credit Canada, which counsels people in debt, said retiring with debt is fraught with problems.

“How do you get back into the workforce if you find you can’t keep up (with payments)?” Campbell said. “What happens if interest rates increase and you can’t maintain the payments?”

Sal Guatieri, an economist with Bank of Montreal, penned a report a year ago that said the current crop of retirees were the richest seniors ever.

“They have relatively lower debt to the income (than the general population) and much higher wealth and assets than other age groups,” the economist said. “But it is true the number of (senior) households carrying debt has increased.”

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