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# What to do with the money from selling your home

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*Only some people can afford to cash in on high real estate prices, but if you are, it's best to have a plan for that dough*

Selling your house now to cash in on long-term price gains and avoid a downturn in the real estate market makes sense for only a minority of people.

But there's enough of you out there to make it worthwhile answering this important question: What the heck do you do with the huge amount of money you'll have after the sale?

Let's say you plan to rent in the near term while evaluating opportunities to buy back into the market after a price decline. Rona Birenbaum, financial planner at Caring For Clients, said the smart thing to do is put the money in a high-interest savings account.

Huh? Rates for these accounts top out at about 2 per cent for no-name credit unions and online banks, while more established banks are offering not much more than 1 per cent. Ms. Birenbaum's reply? "You have to protect your capital at any cost."

The 16-per-cent decline in the stock market in the past 12 months explains the reasoning here. If you want to accept some risk to stretch for higher returns, Ms. Birenbaum suggests you do it only with money you don't expect to need to buy your next home. She also reminds people that bonds and bond funds are no substitute for high interest accounts. Both will fall in price if interest rates were to move higher, although individual bonds will eventually pay you back your money on maturity.

"You can lose money in bonds," Ms. Birenbaum said. "A lot of investors don't appreciate that."

For savings accounts, she likes ING Direct, currently paying 1.35 per cent, and Manulife Bank, paying 1.75 per cent. Several online banks operated by credit unions based in Manitoba offer 2 per cent, but they operate under a deposit insurance plan that lacks the federal government backing of Canada Deposit Insurance Corp. "Personally, I wouldn't be comfortable with them," Ms. Birenbaum said.

CDIC protects bank account deposits up to $100,000, which means only part of the proceeds from a house sale may be protected if held in one account. (Manitoba credit unions have unlimited protection for depositors.) For that reason, Ms. Birenbaum suggests dividing up your money at CDIC-member banks among a few different institutions.

Today's rates on high interest accounts are awfully low, but when applied to the proceeds of a home sale you can still generate substantial amounts. On $500,000, a return of 1.35 per cent equals $6,750. If you're collecting Old Age Security, be aware that your additional interest income could raise your income to a level where a clawback of your benefits begins to kick in. For 2012, the clawback starts at $69,562. Something else to note is that your interest income will be taxed at your regular rate, unlike dividends or capital gains.

If things go your way as a seller in today's housing market, you may be able to buy another home later on and keep some of the proceeds from the sale of your old house. Just remember that you'll pay a lot in moving, legal and real estate fees if you sell, rent and then buy again. Budget accordingly.

If you've sold your house and plan to rent permanently, a more aggressive investing approach is certainly possible. But don't make any investing decisions without first considering the extent to which this money will be needed to pay your living expenses in years ahead.

Be especially cautious if you haven't saved a lot for retirement and are depending on the equity in your home. Ms. Birenbaum said that to be very conservative, you should figure on needing your money to generate income through age 100.

Whatever you invest in, mind the tax consequences. Other than property taxes, owning and selling a principal residence can be done tax-free. Invest the proceeds from the sale of a house in the markets and you'll likely have to deal with all kinds of T5 slips reporting dividends and interest.

Ms. Birenbaum said many home sellers would do fine with a diversified portfolio that includes dividend-paying stocks and various types of bonds or guaranteed investment certificates. Dividend stocks are riskier than bonds and GICs, but the dividends they pay are taxed at a lower rate. Again, prepare for the possibility that your OAS benefits may be clawed back at least in part as a result of your investment income.

One last suggestion: See a financial planner if you're converting the proceeds from the sale of a home into investments that will help you pay your living expenses. Ask for a financial plan at a flat fee and decide later where and how you'll make your investments.

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You've sold your house and you want to keep the money safe while you decide whether to be a renter or buy back in again if housing prices fall. Here's a comparison of returns you'll get from various high-interest savings accounts.

| Financial Institution | Rate(%) | Memberof CDIC | Member of a credit union DIP* |
|---|---|---|---|
| Accelerate Financial | 2.1 | | x |
| Peoples Trust | 2.1 | x | |
| Achieva Financial | 2 | | x |
| MAXA Financial | 2 | | x |
| Outlook Financial | 2 | | x |
| Hubert Financial | 1.85 | | x |
| Ally | 1.8 | x | |
| Canadian Tire Bank | 1.8 | x | |
| Manulife Bank | 1.75 | x | |
| ICICI Bank Canada | 1.6 | x | |
| ING Direct | 1.35 | x | |
| President's Choice Financial | 1.35 | x | |

* deposit insurance program

Notes

Ally's CDIC membership is through its parent, ResMor Trust.

Accelerate, Achieva, MAXA, Outlook and Hubert are online banks owned by Manitoba credit unions, which have unlimited deposit insurance coverage.

*Source: Cannex.com*