Can we retire with $6,500 a month?

Randy and Sandra Luke wonder if they can deliver the income they feel they'll need in retirement

by Julie Cazzin
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Up until last year, Sandra and Randy Luke were focused on paying off their mortgage. With that goal behind them, they're ready for their next challenge: to retire in 10 years. But can they save enough to build a portfolio capable of delivering a monthly net income of $6,500 in retirement?

The current situation

Randy Luke, 51, and his wife Sandra, 49, live in Winnipeg. Randy is in the printing business and Sandra is a healthcare instructor, but come 2027 they both hope to have a different job title: retired.

"We felt we had to have a goal and 10 years from now for full retirement is a good time," says Randy. "Sandra has a defined benefit pension plan at work and that's when she reaches her factor 80 date for a full pension."

The couple's finances are in good shape after paying off their $475,000 home a year earlier than planned. Currently, they have a combined $720,000 in their TFSAs, RRSPs, and other savings. The couple doesn't have children, which means all of their savings can be put towards their retirement.

Two years ago, the couple also made a big change in their approach to their investments. "We dumped all our high-fee MER mutual funds and now manage our own investments—me with ETFs at Questrade and Sandra with TD e-series funds," says Randy.

"All of our investments are in low-fee ETFs or index funds in a couch potato portfolio split 20% U.S. equities, 20% international equities, 20% Canadian equities, and 20% fixed income. "We've achieved good average annual returns of about 4% net and we're happy with that," says Randy.

Before they retire they also plan to downsize to a bungalow condo, a move Randy expects will be a wash financially. "We plan to be snowbirds so with a condo we wouldn't have to worry about being away," he says.

These days the couple save $2,000 monthly into RRSPs and TFSA. With those savings, along with Sandra's defined benefit pension plan with her employer that will pay out $1,149 monthly when she retires in 10 years, they hope they will have enough of a nest egg to maintain a retirement income of $6,500 net monthly until age 95. (Randy doesn't have a company pension).

"I think we're saving enough to accomplish this goal, but we may need to save more—or maybe less—we aren't sure," says Randy. "And I'm not sure whether it would be best to take CPP at age 60 or 65. I take care of all the family finances and it would be nice to know if we're on track with our retirement goal, and if not, what changes we have to make to ensure that we are."

Where they stand

House	$475,000
Investments	
Randy's RRSP (Questrade)	$131,555
Randy's Group RRSP	$320,559
Randy's TFSA	$46,867
Sandra's RRSP (TD e-Series funds)	$182,437
Sandra's TFSA	$20,803
Savings	$30,000
Total Investments	$732,221
Total net worth (House + Investments)	$1,207,221

The verdict

Randy and Sandra are great savers. The fact they have no mortgage is a huge help to their planning because it liberates money to add to their savings for retirement, says certified financial planner Janet Gray, a money coach in Ottawa.

If Sandra retires at age 59, she will start receiving $13,788 a year from her company's defined benefit pension plan. If they both wait until age 65 to take their CPP, along with the OAS income they are entitled to at that time, they would each receive $19,700 annually for life. When coupled with Sandra's DB pensions payments they would have a total of $53,188 annually—or about $4,430 a month, explains Gray. (These figures assume maximum CPP contributions and OAS benefit). The remaining income for spending would come from your RRSPs and TFSAs to round it up to the $6,500 net monthly (about $78,000 net annually) lifestyle expense the couple estimates they will need.

One strategy to help them save on taxes would be for the couple to withdraw money from their TFSAs first in order to delay paying the inevitable tax on RRSP withdrawals. To maintain their $6,500 a month in income, Randy will likely have to start withdrawing from his RRSPs in his mid-60s.

Of course, if they want to start receiving CPP money earlier, they can both do so at age 61. There is not much cash flow difference if they take CPP at age 61 (for Randy) and 60 (for Sandra) versus both starting to receive it at age 65 because they would just withdraw less from their savings to give them funding for their monthly living expenses.

While the move to the condo before they retire won't top up their portfolio, the couple will need to factor their property into their retirement equation down the road. When they start their CPP may determine when they have to sell. For instance, if they take CPP in their early 60s, their investment savings will run out when Randy reaches age 85, if they don't sell their home. Whereas if they take CPP at age 65 they will be able to go until age 88 before they have to sell their principal residence.

If in their mid-80s they invest the money they receive from the home sale, their money will last until age 95. Their home will likely sell for about $1.3 million at age 85 (based on a 3% average annual increase in home value.) That would certainly increase their cash flow but remember, they would need to set aside more money each year to cover rent or retirement home expenses since they will have to pay for accommodation at that time.

Of course, they can make some modifications to these assumptions and their investment money would last longer. For instance, if they make a 5% net annual rate of return instead of the 4% that's been projected, their money will last longer. And if they can cut their monthly expenses to $69,000 net a year instead of the $78,000 net in annual spending assumed for this scenario, then they won't ever have to liquidate their home to maintain their spending. They can stay put until Randy reaches age 100. The bottom line? Because they have a nice investment nest egg and a paid off house, they will have a very comfortable retirement with lots of money to spend and enjoy.