FINANCIAL FACELIFT

# He is 77, she is 54. Can she retire at 60?

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After some rocky financial times, Joe and Josie are on firm enough footing again to begin thinking about the future. He sold a rental property, she got a steady job. Joe, who is 77, is thinking about Josie's future without him. Josie is 54.

Together, they enjoy a decent income. She earns $64,500 a year plus benefits, while he brings in $30,550 in pension and government benefits.

A divorce settlement cut Joe's pension income in half "with no survivorship or life insurance," Joe writes in an e-mail. "Naturally, Josie would like to join me in retirement sooner rather than later," he writes. Because of his age and limited financial resources, "I find it difficult to advise her as to what we should be doing with what we have."

Josie has a defined contribution pension plan to which she contributes 2 per cent of her salary and her employer 1.5 per cent. Their goal is to save as much as possible without giving up their travel.

We asked Noel D'Souza, a fee-for-service financial planner at Money Coaches Canada, to look at Joe and Josie's situation.

**What the expert says**
Josie hopes to retire in six years at age 60, the planner notes.

After Joe dies, Josie's retirement income might be low enough for her to qualify for the Guaranteed Income Supplement (GIS), Mr. D'Souza says. Her income will come from the Canada Pension Plan, her small defined contribution pension plan, her savings and (at age 66) Old Age Security (OAS).

Because of this, they should use their surplus cash flow of $12,300 a year to top up their tax-free savings accounts. Withdrawals from a TFSA do not affect income-tested benefits such as the GIS. Together, they have about $36,000 in available TFSA contribution room, with another $11,000 added each year, Mr. D'Souza says.

They should name each other "successor holder" on their TFSAs. This will allow her to take over his TFSA when he dies, or vice-versa. The funds will continue to be tax sheltered.

Although Josie has a work pension plan, the contributions are relatively small, so she will have to supplement it with her RRSP, the planner says.

Josie would benefit from making additional RRSP contributions as well as contributing any resulting tax refunds – even if that means she will lose some GIS benefits, the planner says. She would draw funds out of her registered retirement income fund at a lower tax rate (20 per cent) than she currently pays (31 per cent).

To do so, they would have to cut spending, the planner says. Joe and Josie "should strongly consider how they can set aside more in savings to ensure Josie can carry on without Joe's retirement income once he passes away."

Mr. D'Souza notes they spend almost 10 times as much on gifts, charity, and vacation ($1,035 a month) than they do on investing ($105). "If they could free up another $500 a month by reducing expenses, they could make additional RRSP contributions to improve Josie's RRIF income in retirement," he says.

If they happen to come into a windfall (an inheritance, sale proceeds from their home or the sale proceeds from Josie's portion of the family cottage), Josie could top up her RRSP further.

Based on her government benefits, pension plan, RRSP and TFSA savings, Josie will have net after-tax nominal income of $28,700 at age 60, Mr. D'Souza says. The breakdown is: $17,800 in registered retirement income fund withdrawals; $6,500 in CPP; and $6,400 from her TFSA. From this the planner subtracts $2,000 of income tax.

Once OAS kicks in at age 66, Josie's net after-tax nominal income will be $32,500 a year, or $24,200 a year in today's dollars. Her savings will last to age 95. The $24,200 is $15,800 a year short of their retirement spending goal (for Josie alone) of $40,000 a year.

As long as Joe is alive, their combined income should provide them with a "reasonably good" standard of living, so Josie could delay applying for CPP benefits when she retires at age 60, thus increasing her annual benefit later, Mr. D'Souza suggests.

If Josie was to sell her share of the family cottage and invest the proceeds, her after-tax income would rise to about $27,300 a year adjusted for inflation.

"Depending on Josie's willingness to make spending adjustments, work full-time past age 60, or do some part-time work in retirement, the income gap can be mitigated or even eliminated," the planner says.

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**Client Situation**

**The people:**
Joe, 77, and Josie, 54.

**The problem:** Ensuring Josie can live comfortably after Joe has gone.

**The plan:** Contribute any surplus funds to both their TFSAs. Review expenses, contribute any savings to her RRSP. Josie could consider working longer than age 60 if necessary.

**The payoff:** A better idea of what needs to be done to achieve financial security.

**Monthly net income:** $6,500

**Assets:** Bank accounts and term deposits $10,700; other $15,000; TFSAs $25,500; her RRSP $202,400; market value of DC pension $5,000; residence $375,000; joint interest in family cottage $100,000. Total: $733,600

**Monthly disbursements:**
Property tax $220; maintenance and condo fees $550; cottage $170; utilities $155; transportation $800; groceries, clothing $650; gifts, charitable $575; vacation, travel $460; dining out, entertainment, drinks $685; grooming, subscriptions, hobbies $265; dentists, drugstore $145; health, dental insurance $185; life insurance $75; disability insurance $130; telecom, TV, Internet $305; pension plan contributions $105. Total: $5,475. Surplus: $1,025

**Liabilities:** None

*Some details may be changed to protect the privacy of the persons profiled.*