Can Charlotte, 50, and Oliver, 51, retire comfortably without selling their house?

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Oliver, 51, and Charlotte 50.Todd Korol/The Globe and Mail

140 Comments

Oliver is 51, Charlotte 50. Together, they earn $253,000 a year, Charlotte as a consultant and Oliver in sales. They have two teenaged children they want to put through university and a mortgage-free home in Alberta.

Neither has a defined benefit pension plan, but both have group-registered retirement savings plans at work to which they and their employers contribute.

“Our biggest question is will we have enough to retire with a spending target of $100,000 a year if I retire at the age of 61 and my husband retires at 64?” Charlotte asks in an e-mail. “We’d love to retire early enough so we can see the world and be active hiking and biking before we are too old to do the things we want to do,” she writes.

“We are fairly diligent savers (I think!), but didn’t get started early to the savings game and haven’t been fortunate enough to have pensions at our jobs,” Charlotte adds. Even so, “We have a wonderful life with lovely kids and good health – you can’t ask for much more.”

Short term, they want to do some work on their house, travel to Europe and buy a used car. Long term, “We don’t want to rely on income from the sale of our house for retirement purposes but rather leave it to our kids when we die,” she writes. “Is this possible?”

We asked Barbara Knoblach, a certified financial planner at Money Coaches Canada in Edmonton, to look at Charlotte and Oliver’s situation.

WHAT THE EXPERT SAYS

Charlotte and Oliver are wondering if they can accomplish all their short- to medium-term goals while managing to retire before reaching traditional retirement age, Ms. Knoblach writes.

Short term, they have earmarked $25,000 for a used vehicle. They would like to build a garage and do some landscaping of their backyard this year, which will cost $60,000. Within three to four years, they would also like to do an interior renovation of their house. They have an annual travel budget of $15,000, which they would like to maintain into their retirement years if possible.

In addition to the above, they ask what spending power they could attain if they decided to retire even earlier – at 58 for Charlotte and 60 for Oliver, the planner says.

Charlotte and Oliver have group RRSPs that receive a matching component from the employer, Ms. Knoblach says. Charlotte is contributing 6 per cent of her salary, or $550 a month, to the group RRSP and is receiving a matching component of 4 per cent of her salary, or $367 a month, from her employer. Oliver is contributing 3 per cent of his salary, or $350 a month, and is getting a matching contribution of $350 a month.

“As Charlotte writes in her e-mail, they are diligent savers,” the planner says. Charlotte contributes $1,700 a month to a personal RRSP and $600 a month to her tax-free savings account. Oliver contributes $1,850 a month to a personal RRSP and $600 a month to his TFSA.

Oliver and Charlotte are not making any new contributions to the registered education savings plan for their children. “They want to let their funds compound and aim to provide each of their children with $60,000″ for their education expenses, Ms. Knoblach says.

Oliver is prepared to work a few extra years because he started his retirement savings later in life. Once Charlotte has retired, it is assumed that Oliver will not continue with his aggressive savings plan. Instead, he will only make contributions to his group RRSP and receive an employer match. His income will be used for their joint living expenses, which will allow them to defer making withdrawals from their investment accounts.

For her analysis, the planner assumes that Charlotte and Oliver will get 70 per cent of full Canada Pension Plan benefits and that they continue to contribute to their RRSPs and TFSAs “all the way to retirement,” assuming they have sufficient contribution room. She also assumes that the couple’s near-term expenses will be paid for with funds from their joint non-registered investment account. Charlotte and Oliver also have about $48,000 in chequing and savings accounts that could be put toward these purposes.

To gauge the impact of home renovations on their retirement readiness, the planner compares two scenarios, one in which Charlotte and Oliver retire as planned but do not renovate their house. Charlotte fully retires as of January, 2034, and Oliver as of January, 2036, the years in which they will be turning 61 and 64, respectively.

“As of 2036, Oliver and Charlotte could attain an annual after-tax spending power of $125,600 a year, surpassing their target of $100,000,” Ms. Knoblach says.

Next, she models a situation in which Oliver and Charlotte spend $60,000 this year on a garage and landscaping, and $100,000 in 2027 for interior home renovations. Otherwise, they continue with their contributions to their investment accounts and group RRSPs and retire at the same age as above. The forecasts assume an average rate of return on investments of 5.5 per cent and an inflation rate of 2.5 per cent.

“Oliver and Charlotte could attain an annual spending power of $116,800 a year, again surpassing their target of $100,000,” the planner says. “They will be able to carry out their home renovations, vehicle purchase and annual travel and still retire on a spending power that exceeds their target.”

Charlotte and Oliver do not want to sell their house to extract funds for retirement purposes, Ms. Knoblach says. “Spending at a sustainable level ($125,600 in Scenario 1 and $116,800 in Scenario 2) will lead to a depletion of capital assets (money in the bank) over time but will not involve a disposition of real estate,” the planner says.

“They will have no money in the bank at the end of their projected life expectancies (Charlotte’s age 95), but they will still have all the equity in their house.” They could sell the house to extract equity if need be, or they could leave the house to their children.

Finally, Charlotte asks how they would fare if they decided to retire from work even earlier – at 58 for Charlotte and 60 for Oliver.

"I modelled a scenario in which Charlotte retires as of January, 2031, the year in which she turns 58, and Oliver retires as of January, 2032, the year in which he turns 60," the planner says. "They will have fewer years of contributions to their retirement savings and will be spending more years in drawdown."

In this situation, Charlotte and Oliver could retire with an annual after-tax spending power of $94,300 as of January, 2032. "Their target of $100,000 is not quite reached."

However, they could still make earlier retirement a reality if they decide to use some of the funds in their bank accounts – for the car purchase, for example – or if they decided to do only the necessary renovations and skip the "nice to have" ones, Ms. Knoblach says. "If they decided to pass on the garage and landscaping and do only the interior renovations in a few years, they could reach a spending power of $97,200 a year."

Client Situation

The People: Oliver, 51, Charlotte, 50, and their two children, 13 and 16.

The Problem: Can they afford to buy a car, renovate their home and retire early? How early?

The Plan: Continue saving aggressively until Charlotte retires, then live on Oliver's income until he retires.

The Payoff: Their spending goals are easily achieved, and they may be able to retire even earlier than initially planned.

Monthly net income: $13,000.

Assets: Bank accounts $48,000; non-registered investment accounts $264,000; her TFSA $95,000; his TFSA $90,000; her RRSPs (personal and group) $349,000; his RRSPs (personal and group) $211,000; her LIRA $45,000; his LIRA $47,000; registered education savings plan $100,000; residence $575,000. Total: $1,824,000.

Monthly outlays: Property tax $355; water, sewer, garbage $100; home insurance $110; electricity, heating $290; maintenance, garden $530; transportation $780; car maintenance, new tires $500; groceries $1,600; clothing $205; gifts, charity $325; vacation, travel $1,250; other discretionary $200; dining, drinks, entertainment $250; personal care $65; pets $165; sports, hobbies $985; subscriptions $375; other personal $65; drugstore $60; health, dental insurance $275; disability insurance $250; communications $225; RRSPs $3,300; TFSAs $1,000. Total: $13,260.