Can Maurice and Fiona afford to spend their winters in Palm Springs?

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Maurice and Fiona hope to be able to travel for a few more years without creating a shortfall for future health concerns.The Globe and Mail

After three years of wintering in their small-town B.C. home because of the COVID-19 pandemic, Maurice and Fiona are eager to return to their favourite vacation spot next winter: Palm Springs, Calif.

Fiona is age 80, Maurice 82. They have a mortgage-free house, some savings and investments and children, grandchildren and great grandchildren. Their combined income from investments, government benefits and a small company pension is about $68,000 a year.

“We would like to go south three months each winter as long as health and finances permit,” Maurice writes in an e-mail. The trip would cost at least $15,000, of which $5,000 would be travel insurance. “Fiona is in excellent health and I’m in decent health for a man of my age,” Maurice writes. “My dad lived to 97, so the genes are favourable.”

They plan to live in their house for at least another five years and then move to an independent retirement residence. “There are several places in our area where prices for a couple range from $50,000 to $60,000 a year, including all meals,” Maurice adds.

One of their goals is to preserve capital. They wonder if their investment portfolio – 25 per cent cash and 75 per cent stocks – is appropriate. They are spending about $61,000 a year after tax. “How long can we afford to go to Palm Springs?”

We asked Tom Feigs, a certified financial planner at Money Coaches Canada in Calgary, to look at Maurice and Fiona’s situation.

What the expert says

“Maurice and Fiona, like most octogenarians, know their spending habits well,” Mr. Feigs says. “They also know that extra spending – on travel for example – will put them in a situation of spending more than their income.”

The financial planner’s role in this case is to balance lifestyle desires with eventual health care needs, Mr. Feigs says. “This helps to answer their main question: How long can we afford to go to Palm Springs?”

Their solution to the cash shortfall is to sell their house at some point to replenish their investment income. In the meantime, they can draw on their investments, taking care not to push up their taxable income too much, the planner says. “Spread it out to pay less tax each year.” They could draw from their registered retirement income funds, for example.

In preparing his forecast, the planner assumes a rate of return on investments of 4 per cent after fees. He assumes an inflation rate of 2.2 per cent and that they both live to be 100. They suspend tax-free savings account contributions to help cover the travel costs, but replenish their accounts when they sell their house in five years or so. Mr. Feigs also allocates $100,000 in total for in-home care while the couple are living in their house.

First, their income. Fiona gets a pension of $243 a month from her former employer. In addition, they are getting combined Canada Pension Plan benefits of $1,874 a month and Old Age Security benefits of $1,513 a month. “All in all, their before-tax pension entitlements are $43,545 a year,” the planner says. Their investments are generating about $25,000 a year, giving them total income of $68,545 a year.

Next, their spending. “Maurice and Fiona’s personal spending – about $61,000 a year – is the lowest during their time in their home, so the longer they can stay there, the longer they can continue going to Palm Springs,” Mr. Feigs says. “Once health concerns slow them down, it will be time to sell the home and move into a retirement residence.” So their health, rather than their finances, will determine how long they are able to go south for the winter.

They estimate a retirement residence in their area will cost $50,000 to $60,000 a year for both of them. They would save money on property tax, insurance, utilities, home repair and the like. But they would still have their lifestyle expenses – a vehicle, dining out, gifts, dentists, health care practitioners, travel, clothing and personal grooming, for example. The planner assumes their annual spending will rise to $96,000 a year.

“This transition to a retirement residence will simplify their lifestyle,” Mr. Feigs says. “There would be financial room to continue to winter in Palm Springs for another two seasons while renting [in the retirement home] if they wish to stretch their winter leisure time.”

If they needed nursing care, called assisted living in British Columbia, the costs of private care would be substantially higher than the retirement home. (The public system is partly subsidized by the provincial government.)

“Assisted Living requires careful research as it can vary widely by location and standard of care,” Mr. Feigs notes. There are three or four levels of care in assisted living, depending on the patient’s needs, which affects the cost. As well, Maurice and Fiona may not require the same level of care.

The couple ask if their investments are suitable. Mr. Feigs recommends a conservatively-balanced portfolio designed to average a 4 per cent annual rate of return after fees. The RRIFs could hold 50 per cent Canadian and U.S. large-cap, dividend-paying companies, 30 per cent corporate bond exchange-traded funds and 20 per cent guaranteed investment certificates and cash. The TFSAs could hold 60 per cent Canadian and U.S. dividend-paying stocks, 30 per cent corporate bonds and 10 per cent GICs and cash.

In the forecast, their net worth is preserved for five years, after which it slowly declines, the planner says. Fiona and Maurice start to draw down their principal at Maurice’s age of 86. Surplus savings – estimated at about $200,000 – are left to their estate.

“Maurice and Fiona have researched their future residence options and I encourage them to do the same for assisted living options as well,” Mr. Feigs says. “This forecast provides a solid financial path and allows them to go ahead with leisure and travel spending while they are mobile and able,” the planner says. “Their financial position is matched well to their desired lifestyle.”

Client Situation

The People: Fiona and Maurice, age 80 and 82.

The Problem: To confirm they can travel to Palm Springs for a few more years without creating a shortfall for future health concerns.

The Plan: Do as much cost research on future health solutions as possible. Travel to Palm Springs as long as health permits. Sell the house when they are transitioning to simpler living and then, later, assisted living.

The Payoff: Peace of mind, knowing they are not endangering their future in favour of choosing to travel in the winter.

Monthly net income: $5,085.

Assets: Bank accounts $5,000; her RRIF $284,000; his RRIF $80,000; his TFSA $110,000; her TFSA $81,000; nonregistered portfolio $56,000; registered education savings plan for great grandchildren $9,000; residence $600,000. Total $1,225,000.

Monthly outlays: property insurance $60; property tax $160; property maintenance $350; cellphone, cable, internet $185; subscriptions $82; electricity $109; natural gas $156; city services $125; extended health benefits $216; gym membership $28; vehicle insurance $103; fuel $130; vehicle maintenance $76; gardening $50; groceries $775; beauty care, vitamins $116; entertainment, dining $320; alcohol $328; clothing, shoes $120; gifts $458; hobbies $428; charity $55; bank fees $15; local travel $103; Palm Springs $1,250; RESP contributions $417; other $135. Total: $6,350. Shortfall comes from savings and investments.

Liabilities: None.