Can Mila, a novice investor at 65, ‘live the dream’ with help from her condo sale proceeds?

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Mila was forced into retirement after 30 years with the same company and, a novice investor, wants to ensure she will be secure in her retirement.J.P. MOCZULSKI/The Globe and Mail

Mila was “forced into retirement” after 30 years with the same company because of a downsizing and she worries she has not managed her money well so far. She is 65 and single with no children. “I got a fairly good buyout that paid all my debts, and I have managed a few really good trips to Europe,” Mila writes in an e-mail.

Mila's other life-changing event was a cancer scare. She's healthy now, "but it's something that is always at the back of your mind," she writes. A month or so ago, she sold her Greater Toronto Area condo so she can afford to travel and spend more time abroad. Now, she's wondering how to invest the sale proceeds.

"My goal is to spend three to six months a year in Europe in a rented apartment overlooking the sea, living the dream," Mila writes. She may decide to move overseas full time.

Mila says she's being steered toward segregated funds "with a projected conservative growth of 5 per cent." Such funds guarantee 75 per cent of a client's deposits but bear fees ranging as high as 2.5 per cent or more. She's also looking at private mortgages paying 10 per cent in interest. She has never invested in financial markets. "I'm not sure I would sleep at night."

Fortunately for Mila, she worked for a large company with a defined benefit pension plan indexed to inflation. She gets about $44,265 a year in pension income, $9,835 in Canada Pension Plan benefits and $7,625 in Old Age Security benefits, for a total of $61,725 before tax.

She's hoping the $243,155 net proceeds from the sale of her condo will generate monthly income to supplement her pension and benefits. "This is all the money I will have for the rest of my life and I need to make the right choices," Mila says. She plans to use the $70,000 she has in a tax-free savings account for travel.

"Am I in trouble now?" Mila asks.

We asked Janet Gray, an advice-only financial planner at Money Coaches Canada in Ottawa, to look at Mila's situation. Ms. Gray holds the certified financial planner (CFP) designation.

What the expert says

Mila should look for low-fee investment products or advisory services with fees of no more than 1.5 per cent, Ms. Gray says. "More advice and more service selection often add to the fees the client pays." She suggests Mila explore a few options before deciding where to invest, to see which is the best fit.

Often, older people with no investment experience and less than $500,000 in savings can find it difficult to get direct access to the broadest choice of investment products, the planner notes. Novice investors may also have unrealistic expectations of risk and return.

Mila would probably be best served by a portfolio manager, a firm that holds to the fiduciary standard of care and so is required by law to act in their clients' best interests. Unfortunately, most of these firms require a substantial minimum investment.

One exception is Steadyhand Investment Management Ltd., which sells its low-fee funds directly to the public with continuing client service. Steadyhand requires a minimum investment of $10,000 a fund. Fees are discounted according to the amount invested and the length of time

a client has been with the firm. Fees for its Founders Fund, for example, start at 1.34 per cent for the first $100,000.

Online portfolio managers, or robo-advisers, are an even lower-cost alternative, but they may not offer the personal contact Mila likely needs, Ms. Gray says.

Mila says she has an adviser she trusts and is leaning toward buying segregated funds. Seg funds have a death benefit as well as a money-back guarantee, typically 75 per cent of the investment. With no dependants and no desire to leave any estate, it's not clear Mila needs the death benefit.

Higher fees over a long time can make a big difference, the planner notes. To illustrate, compare $200,000 invested over 20 years with an average annual return of 5 per cent. At 2.5 per cent, an investor would pay $202,942 in fees, compared with $92,433 for a 1-per-cent fee – a saving of $110,509. (With 2.5-per-cent fees the initial investment will grow to $327,718 over 20 years, assuming no withdrawals, compared with $438,227 with a 1 per cent fee.)

As a guideline, Mila could invest the house proceeds in a moderate-risk portfolio of 70 per cent blue-chip, dividend-paying stocks or stock funds and 30 per cent income-producing securities (medium-term guaranteed investment certificates and certain bond funds), Ms. Gray says. A 70/30 portfolio is considered likely to achieve an average rate of return of 4.95 per cent before fees, so it is important to keep fees as low as possible. The forecast assumes a long-term inflation rate of 2.5 per cent.

To ensure she always has the money to cover her living expenses, Mila could set aside enough to cover withdrawals for three to five years in a high-interest savings account or GIC ladder. The potential higher rate of return on her longer-term investments would offset the lower rate on the cash holdings.

Mila has said she wants to spend all of her investable assets and not leave an estate, so based on the above assumptions, she could spend up to $58,469 a year, adjusted for inflation, from now to age 100, Ms. Gray says. Mila is spending $53,160 now. The extra income could go to travel.

To reach $58,469 in spending, Mila will need to draw consistently from her non-registered account to top up her pension income and make annual contributions to her tax-free savings account. "Mila should maximize her TFSA as long as she is able, even if she has to move funds from her non-registered account," Ms. Gray says. These withdrawals will deplete the non-registered account by age 85.

Mila can use her TFSA for emergencies and larger purchases, the planner says. Mila should be able to earn 1.5 per cent in interest with a high-interest savings account currently, more if rates continue to rise. As her TFSA increases in value, Mila could invest some of it for the longer term at closer to the 4.95-per-cent goal. "At some point, she may want two TFSAs, one for short- and medium-term goals at 1.5 per cent and the other for longer-term goals at 4.95 per cent."

At age 86, after her non-registered account is depleted, Mila will start to withdraw from her TFSA, “which winds down to zero at age 100,” Ms. Gray says.

To stay on track, Mila should review her expenses and planned purchases regularly. “Use your pensions to cover your needs, such as rent and groceries, and the non-registered account for wants,” the planner says. Money earned in a non-registered account will be taxed according to the source of the earnings. For example, “Mila will pay 100 per cent tax on interest and 50 per cent tax on capital gains.”

Mila has a substantial sum sitting in a bank account. If she were to die unexpectedly, any funds in the bank would have to be distributed via her will, which she last updated in 2017, Ms. Gray notes. Mila should contact her lawyer to update her will promptly and review her powers of attorney at the same time.

Client situation

The person: Mila, 65

The problem: How to safely invest the proceeds of her condo sale to generate income.

The plan: Look for low-fee investment advisers, products or advisory services. Invest in a balanced portfolio of fixed income and stock funds with a target return of 4.95 per cent. Review expenses regularly. Continue contributing to her TFSA.

The payoff: The comfort of knowing she should have enough to meet her financial goals.

Monthly net income: $4,075

Assets: Travel fund $2,000; condo sale proceeds in cash $243,155; TFSA $70,000. Total: $315,155

Monthly outlays: Rent $2,550; electricity $80; transportation $380; groceries $450; travel $0; dining, drinks, entertainment $275; personal care $200; sports, hobbies, golf $125; subscriptions $25; health care $75; communications $270. Total: $4,430

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