Do Claude and Maxine have enough savings to cover their retirement spending target?

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Maxine and Claude are in good shape financially, with savings, a mortgage-free house in the Greater Toronto Area and no debt.Tijana Martin/The Globe and Mail

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With his 66th birthday nearing, Claude hopes to retire from his $120,000-a-year job by year-end. His wife, Maxine, is 67 and working part-time. Her income varies.

They have three adult children, 30, 32 and 34, two of whom have moved back home.

Claude had a bout with cancer recently and as the main breadwinner, “I wish to make sure that there is a solid future with or without me in the picture,” he writes in an e-mail.

Maxine and Claude are in good shape financially, with savings, a mortgage-free house in the Greater Toronto Area and no debt.

“Another consideration – and one that is difficult to factor – is our two adult children who are still at home,” Claude writes. “Living outside of our home, both struggled with the cost of rent, food and transportation.” They help one son pay for $550 worth of medication each month that is not covered by his work benefits.

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When they retire from work, Claude and Maxine want to “live and age in place and travel if possible,” Claude writes. Their retirement spending target is $90,000 a year after tax.

They wonder which savings and investment accounts to draw funds from first.

We asked Steve Bridge, an advice-only financial planner at Money Coaches Canada in North Vancouver, to look at Claude and Maxine’s situation. Mr. Bridge holds the certified financial planner (CFP) designation.

What the Expert Says

Claude and Maxine have done a good job of saving and paying down their mortgage over the years while raising three children, Mr. Bridge says. “They have quite a bit going on - an overdue home renovation, a car purchase, pending retirement for Claude, two adult children living at home, and a potential health challenge,” the planner says.

The renovation of the kitchen and bathroom and the car purchase can come from the funds in their tax-free savings accounts. “We estimate $130,000 total for these.” He suggests buying a car that is one or two years old to save money on depreciation. “While right now may not be the ideal time to buy, there are apps and websites, such as AutoTrader and CarGurus, that can really help with comparison shopping and monitoring prices,” Mr. Bridge says. “For the renovation, get at least two quotes and references.”

They have lots of unused RRSP room. Because Claude's income is high and this is projected to be his final year of full-time work, "I recommend he contribute $22,000 to his RRSP for the 2023 tax year," the planner says. This will take him down to the 31.48-per-cent combined Ontario and federal tax bracket and result in a refund of about $9,400. "If there is extra cash for it, and if Claude does not anticipate working much in 2024, they could revisit this in January and contribute even more for 2023," he says. A further $10,000 contribution would result in an additional refund of approximately $3,148.

Claude also has a locked-in retirement account, or LIRA. A LIRA is where funds from a previous employer's pension are held until you are retired, or at least the age of 55. Mr. Bridge has a note of caution. Their Financial Facelift questionnaire indicates they believe that converting Claude's LIRA to a life income fund, or LIF, and unlocking 50 per cent of its value, means they can receive this money tax-free, he says.

"This is not the case. Money cannot be withdrawn from a LIRA. It is locked in until you convert the account to a life income fund, or LIF. Unlocking means half the value can be put into a personal RRSP, giving you more flexibility when it comes to taking it out," he points out. The advantage to moving half the funds to an RRSP (and then a registered retirement income fund, or RRIF), is that LIF accounts have strict minimums and maximums when it comes to withdrawals, while RRIFs only have minimums

Their $25,000 of cash on hand can be used as an emergency fund and their $10,000 guaranteed investment certificate can go to lifestyle spending in 2024 as part of their spending and drawdown plan.

Because neither has a defined benefit pension plan, Mr. Bridge suggests delaying Canada Pension Plan and Old Age Security benefits until the age of 70. "This will provide a nice base of guaranteed income, estimated at $52,000 in today's dollars," he says.

Smoothing out taxes over the coming years will be important in helping their money last as long as possible, the planner says. "To start, I prefer setting LIFs to their maximum withdrawals because these accounts often require a substantial amount of time to draw down, mainly because of their annual limit on allowable withdrawals."

A combination of drawing money from the LIF, RRIFs and some non-registered funds each year before CPP and OAS start would be a good idea, he adds. "Done right, a good drawdown strategy should keep their taxable income in the bottom marginal bracket of 20.06 per cent and below a 10-per-cent effective tax rate for the next 30 years." Working with an accountant or an advice-only financial planner to decide how much should come out of which account would be a good idea, he says.

Once the RRSPs are converted to RRIFs, up to 50 per cent of RRIF income can be split with the other spouse on their tax return, which helps keeps taxes low. This is relevant in Claude and Maxine's case because Claude has much more in his RRSP and LIRA than Maxine.

When it comes to their investments, Mr. Bridge suggests an asset allocation somewhere around 10 per cent cash, 40 per cent fixed income and 50 per cent equities, depending on their risk tolerance. “It looks like they have a globally diversified portfolio, which is good, but they have a lot of mutual funds with management expense ratios in the 1.7 per cent to 2 per cent range,” he says.

They may want to look into switching to a robo-adviser, or online portfolio manager, which would cut their investment fees by at least half, he says. Or they could work with an investment adviser who charges one percentage point or less of the portfolio’s value.

Claude and Maxine fall short of their stated retirement spending goal. With inflation of 2.5 per cent, and average investment returns at 4.5 per cent (based on the suggested asset allocation), their sustainable after-tax spending from 2024 to the age of 95, is projected to be $79,000 in today’s dollars, Mr. Bridge says. This is $11,000 short of their goal, so they could choose to spend a bit less, work a little longer, or use the equity in their home in future.

If they choose to sell their home in 15 years, (which they said could be an option), it would give them an estimated $121,000 after tax per year from 2024 to the age of 95. This option would involve some debt building up, which would be paid off once the home is sold, he says. They could then rent, move into a retirement residence or buy a less-expensive place to live.

Mind you, if they are living off Claude’s income alone, as they indicate, perhaps their estimated retirement spending goal of $90,000 is “a bit high,” Mr. Bridge says. If they are getting by on $73,000 to $76,000 a year, they may not have to tap into their home equity or downsize.

The downsizing, selling or accessing of equity in their home could be revisited once they see how much they are actually spending in retirement, how their investments perform in the coming years, and how things develop for them. If anything changes, then their plan should be revisited.

Client Situation

The People: Claude, 66, Maxine, 67, and their three children.

The Problem: Is the family secure financially? How should they draw down their savings?

The Plan: Defer government benefits to the age of 70. Devise a plan to draw down savings in the most tax-efficient way, starting with the LIRA and RRSPs.

Consider working longer, spending less or perhaps selling their home at some point to meet their retirement spending goal. Also consider lowering investment fees.

The Payoff: No more worries.

Monthly net income: $6,370.

Assets: Cash in bank $25,000; GIC $10,000; non-registered investments $211,675; Claude's LIRA $132,256; Maxine's TFSA $101,765; Claude's TFSA $101,765; Maxine's RRSP $104,660; Claude's RRSP $238,200; Maxine's spousal RRSP $56,455; residence $1,300,000. Total: $2.3-million.

Monthly outlays: Property tax $480; water, sewer, garbage $145; home insurance $115; heat, hydro $300; maintenance $500; garden $280; transportation $1,110; groceries $520; vacation, travel $150; gifts 0; pets $200; subscriptions $80; other personal $125; dining out, entertainment 0; doctors, dentists $210; prescriptions $675; cellphones $185; internet, TV $225; RRSPs $300; TFSAs $500. Total: $6,100. Surplus, including Maxine's income, goes to additional spending and savings.

Liabilities: None.