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How should Nathan and Elise plan for retirement when they have more immediate goals, like a wedding and home ownership?

Nathan and Elise are curious how to plan for retirement when there are so many life expenses that are more immediate.

Nathan and Elise are trying to “work through” their financial goals for the future – marriage, a place of their own, children. Even retirement. Nathan is 27, Elise 28.

First off, “We would like to buy our first home,” Elise writes in an e-mail. They’re looking for a house or townhouse in Ottawa, where they live and work in middle-management jobs. She earns $78,000 a year, he earns $75,000.

“We’re hoping for something in the $550,000 to $650,000 range,” Elise writes. “We’re pre-approved right now up to $720,000 but do not want to go that high.” Already, they’ve lost out on one offer, “but we know the process will take a while, so we’re not too discouraged yet.” While they have money in the bank, they want to keep a “significant portion” invested in the financial markets. As well, they have set aside some cash for their wedding. They intend to save aggressively over the next 12 to 18 months.

“How do we plan for retirement when there are so many life expenses that are more immediate?” Elise asks. Neither has a defined benefit pension plan, although Elise’s employer is making matching contributions to her registered retirement savings plan. They also ask about combining their finances.

Long term, their goal is to retire at age 65.

We asked Steve Bridge, an advice-only financial planner at Money Coaches Canada in North Vancouver, to look at Nathan and Elise’s situation.

What the expert says

“Elise and Nathan have made an excellent start. Hats off to them for having a handle on their finances at a relatively young age,” Mr. Bridge says. They have savings and registered investments and no debt.

Elise and Nathan are concerned about saving for retirement as well as meeting their immediate goals of getting married, buying a house and having children, the planner says. “The good news is that they’ll be able to do it all, just not all at once.”

The house is a major decision, so he suggests running a few different cash-flow scenarios to show what life will look like with a mortgage, property tax, property insurance, repairs, maintenance and upgrades. “Use 1 per cent of the home’s value as an annual average.” Then there’s landscaping, furniture and appliances. “Again, come up with a reasonable annual average,” he says.

For example, if they choose to buy a $600,000 home – in the middle of their spending target – they would need $120,000 for a 20 per cent down payment, with a remaining mortgage of $480,000. Assuming a five-year fixed mortgage rate of 3.5 per cent and a 25-year amortization, this means monthly mortgage payments of $2,396.

Including property tax, property insurance and repairs/maintenance at 1 per cent of the home’s value annually, and a $400 condo fee (if they buy a condo townhouse), monthly expenses go from $7,880 they are paying now for renting to $9,540 for owning, a difference of $1,660 a month or $19,920 a year. These expenses are in the middle of their estimates, so actuals may be a bit higher or lower, he says.

“In summary, home ownership is totally doable for them, even if one of them is on parental leave for a year,” Mr. Bridge says. They would just need to put a hold on their $3,200 monthly investment contributions – these can be resumed later – and they may have to cut back on a few discretionary spending items like travel, eating out, drinks and sports. This takes monthly spending while owning down to $5,190, “completely possible on one of their incomes plus employment insurance payments” during parental leave.

“Buying too much house can cause stress down the road if there is no wiggle room or space for retirement savings, travel, car repairs and other things,” Mr. Bridge says. “Additionally, they may want to run a cash-flow scenario when they are on one income during a parental leave.” For the wedding, they plan to spend $30,000, with $10,000 coming from parents. He recommends they open a high-interest savings account, name it “wedding” and transfer $20,000 to it from their savings account.

For their down payment, Mr. Bridge suggests they open another high-interest savings account, label it “down payment” and start redirecting to it the $3,200 that is currently going into tax-free savings accounts, registered retirement savings plans and nonregistered savings each month.

“They still have a $21,000 annual cash-flow surplus on top of this, which can also be put away, making $59,400 they can save in the next 12 months,” the planner says. “They can transfer $20,000 from their current savings into this account as well, making $80,000 for a down payment in just one year.”

Add in another year and they will have $140,000, the planner says. “They can also borrow up to $35,000 each from their RRSPs under the federal government’s Home Buyer’s Plan, making a total down payment of $150,000 one year from now and $210,000 in two years.” Their TFSAs and nonregistered investments would remain untouched for long-term savings.

"I suggest they let the dust settle on the wedding, house and baby before getting serious about retirement savings," Mr. Bridge says. They should take advantage of the RRSP matching that Elise's employer has just offered.

"When it comes to their goal of saving aggressively, I am a big fan of cash-flow plans and putting money into different savings accounts for different purposes," the planner says: travel, car repairs, clothes and gifts, sports and electronics. "If they need help setting up, a money coach or cash-flow specialist can help; otherwise, there are lots of online tools and books that can help."

If they want to increase savings, they can review their monthly and annual spending and decide what, if anything, they'd like to cut back on. "The alternative is to make more through a side hustle or working overtime."
They also asked about combining investment and bank accounts. "RRSPs and TFSAs can't be combined, so there's no issue there." Nonregistered investment accounts can be joint, so they could open up a joint investment account once RRSPs and TFSAs have been maxed out. "I personally like the idea of combining bank accounts for people in committed relationships," Mr. Bridge says. "You share common goals, values and live together, so why not bank accounts? Plus, a combined cash-flow plan is easier to manage than two."

A final thought on retirement/financial independence, the planner says. "They would like to both retire at age 65, but I suggest they aim for 60." That's not to say they can't or shouldn't work past 60, "it's just that often the choice is taken out of our hands." The top three reasons people retire earlier than planned are company downsizing, health or taking care of a loved one. "It's better to be prepared for age 60 and keep working, than prepare for 65 and have to retire at 60."

Client situation
The people: Nathan, 27, and Elise, 28
The problem: How do they buy a house, have children and save for retirement?

The plan: Get a good handle on total housing costs before buying. Save aggressively. Put a pause on savings during parental leave and cut discretionary spending temporarily. Be prepared to retire from work a little early just in case.
The payoff: A solid financial footing
Monthly net income: $9,615

Assets: Her bank account $31,805; his bank account $10,800; her TFSA $92,085; his TFSA $63,650; her RRSP $38,160; his RRSP $24,500; her nonregistered $63,585; her group pension plan at work (just started). Total: $324,585

Monthly outlays: Rent $2,200; home insurance $40; electricity $65; transportation $300; groceries $520; clothing $170; charity $15; vacation, travel $300; dining, drinks, entertainment $690; personal care $60; sports, hobbies $200; subscriptions $40; communications $80; RRSPs $1,000; TFSAs $1,000; nonregistered savings and investments $1,200. Total: $7,880

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