Can this couple in their 40s afford their first home without delaying their retirement plans?

DIANNE MALEY
SPECIAL TO THE GLOBE AND MAIL
NOVEMBER 3, 2017

Colleen and Vern are trying to decide whether the time is right to buy a house. She is 43 and he is 41.

"Neither of us has ever owned our own house," Colleen writes in an e-mail. "We would like to make this purchase as soon as possible as long as we are ready financially," she adds. The Ontario couple have no dependants other than their pets.

Vern left behind a well-paying but very stressful job a few years back, Colleen says. After taking some time off and working a few contracts, he recently started working for the government on a one-year contract, bringing in more than $45,000 a year.

"Renewal at the end of the year looks promising."

Colleen has been with the government for 12 years and is earning about $95,000. She will be entitled to a fully indexed pension at age 60, plus bridge benefit to age 65.

They fret that the house purchase might impinge on their retirement plans. Their goal is to hang up their hats at age 65 with $70,000 a year after tax, although Colleen would prefer to retire at age 60. As well, they will have to replace their car soon.

"Are we on track for a comfortable retirement?" Colleen asks.

We asked Nick Boland, a financial planner with Money Coaches Canada in Toronto, to look at Colleen and Vern's situation. Nick is a chartered professional accountant.

What the expert says

Colleen and Vern are looking at buying a house in the $600,000 range without jeopardizing their retirement plans, Mr. Boland says. Coming up with a 20 per cent down payment ($120,000) to avoid paying Canada Mortgage and Housing Corp. insurance "will take a little creativity," he says. Their parents are contributing $20,000. Together, the couple has another $74,700 in liquid assets in bank accounts, GICs and Colleen's tax-free savings account. Her TFSA contribution room would be restored the following year. To bridge the gap, Colleen could tap her registered retirement savings plan under the federal Home Buyers' Plan. The loan would have to be repaid over 15 years starting in the second year after the year she withdrew the money from her RRSP.

If they plan to retire at age 65, they could amortize their mortgage over 20 years. The current posted rate for a five-year, fixed-rate mortgage is about 3 per cent, Mr. Boland notes, resulting in a monthly payment of $2,650. They might be able to negotiate a better rate if they go to a mortgage broker.

As well, Colleen and Vern need to factor in the extra costs associated with owning a home, which could be as much as $750 more a month for utilities, home insurance, and repair and maintenance, for a total of $3,400. Subtract rent of $1,300 a month and the house purchase would cost them $2,100 a month more than they are paying now. That is less than their current cash flow surplus of $2,338 a month, so they can indeed afford to buy a $600,000 house, the planner concludes. When they do, they should make sure they each have enough term life insurance to pay off the mortgage in full, he says.

They should also make sure they have enough money to cover upfront costs such as (estimated) land transfer tax ($8,500), legal fees ($1,500), moving costs ($1,000) "and miscellaneous purchases to feather the nest" ($4,000), for a total of $15,000, the planner says. He suggests they pretend they already have the house and tuck the $2,100 a month in extra costs into a separate savings account.

"This will serve two purposes," Mr. Boland says. "First, they will experience how it feels to carry the extra costs of a new home." As well, in seven months, they will have saved the required $15,000.

Will the house purchase affect their retirement goals?

Assuming Colleen and Vern keep their current jobs, their pensions will provide a great base for retirement, the planner says. "When you add in expected Canada Pension Plan and Old Age Security payments, they will have enough to meet their spending target." They will also have income from their investments. Therefore, the house purchase will not affect their ability to retire comfortably at age 65.

What if they decided to retire at 60?

"This scenario is more challenging," the planner says. Colleen's pension provides for a bridge benefit from age 60 to 65, which will increase her pension income for the five years until she starts receiving CPP. Vern's pension income would be reduced if he retired before age 65. Any shortfall would have to be funded by their investments. If they continue saving at their current rate, their nest egg should be more than enough to bridge the cash flow gap until Colleen is 65 and begins collecting CPP and OAS benefits, the planner says.

Their final question is: Can they buy a new car worth $30,000? If the goal is to retire when Colleen turns 60, cash flow will be tight, Mr. Boland says. One way to finance a new car would be to stretch the amortization on the mortgage to 25 years. This would lower the monthly payment by almost $400, which could go toward loan payments for a new car. Once the car is paid off, they could increase their mortgage payments so that the mortgage would be paid off by the time they retire.

++++++++++++++

The people: Colleen, 43, and Vern, 41.

The problem: Can they afford to buy a $600,000 house without jeopardizing their retirement goals?

The plan: Go ahead and buy the house when they have 20-per-cent down plus moving costs. Keep saving.

The payoff: Financial security.

Monthly net income: $8,710

Assets: Bank accounts $20,000; GICs $16,000; her TFSA $38,700; her RRSP $49,600; estimated present value of her DB pension plan $332,920; his locked-in retirement account from previous job $70,000. Total: $527,220

Monthly outlays: Rent $1,300; home insurance $55; utilities $225; maintenance, garden $20; transportation $490; groceries $600; clothing $510; gifts, charity $85; vacation, travel $600; other discretionary $100; dining, drinks, entertainment $320; grooming $50; pets $125; sports, hobbies $200; health care, insurance $194; cellphones, Internet $215; RRSP $200; pension plan contributions $1,083. Total: $6,372. Surplus $2,338

Liabilities: None