Can this couple semi-retire in their 40s - even after the coronavirus crisis?

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With nearly 20 years of service, Yves is ready to hang up his hat and retire from his job as a first responder. In June, 2021, at the age of 43, he will have the option to retire with a commuted-value pension payout of $700,000. His wife, Evelyn, plans to semi-retire at the same time.

"We do realize that it seems a little crazy to want to retire at our age," Yves writes in an e-mail. "It's a combination of us working really hard and obviously getting lucky with timing and real estate, which can hopefully make it happen," he adds.

But it's mostly about Yves wanting to leave his stressful job. "I've seen enough dead people for one lifetime, to say the least," he said.

The recent upheavals in financial markets could give them pause, especially if they spread to the real estate market.

Of the couples $5.73-million in assets, they have $4.85-million in property, Yves's $700,000 pension payout that he will get in June, 2021, $30,000 in bank savings accounts and $150,000 in balanced mutual funds.

Besides, Yves has some marketable skills. He has used his background in carpentry and general contracting to renovate the couple's three rental properties. Evelyn, who is 40 and works as a commissioned sales representative, manages the rentals and does the design and decorating.

Their three rental properties are valued at a total of $4-million, with mortgages and a line of credit totalling nearly $2-million. Their residence, a condo in a suburb near Toronto, is valued at $750,000, with a mortgage of $500,000.

The couple's retirement spending goal is $100,000 a year after tax. Can they do it?

We asked Nick Boland, a chartered professional accountant and money coach at Money Coaches Canada in Toronto (which provides fee-for-service help and doesn't sell investments) to look at Yves's and Evelyn's situation.

WHAT THE EXPERT SAYS

"Semi-retiring at such a young age is really hard to pull off," Mr. Boland says. "Each year of early retirement is a double blow to your financial plan because it means fewer years to build a nest egg and more years to spend it."

The couple's property portfolio will help. The three properties are generating cash flow of $5,700 a month after expenses and mortgage payments. Repairs are minimal because Yves and Evelyn renovated all three over the past six years.

In preparing his forecast, Mr. Boland assumed that rents and property expenses will increase by 2 per cent a year, in line with inflation, and house repairs long term will average out to be 0.75 per cent of market value each year, or $30,000 a year.

To be conservative, he assumes Yves and Evelyn will get 50 per cent of maximum Canada Pension Plan benefits at age 65.

On the investment side, Mr. Boland assumes a balanced investment portfolio earning a 4-per-cent annual rate of return, net of fees.

"When you put all the pieces together, Yves and Evelyn will have to do the following to achieve their retirement goal," the planner says.

First, they will both need to generate $35,000 a year in part-time income (indexed to inflation) until Yves turns 65.

Second, they will need to sell one of their rental properties in about five years.

Third, they should try to generate as much cash flow as possible between now and June, 2021, to use for savings or extra mortgage payments.

When they both semi-retire in 2021, they should draw first on their non-registered savings and then on their tax-free savings accounts.

"As they hit full retirement when Yves turns 65, the financial situation changes dramatically," Mr. Boland says.

By then, the mortgages will be paid off. Their Canada Pension Plan and Old Age Security benefits, along with their considerable free cash flow from the remaining two rental properties – and eventually, withdrawals from their RRSPs and registered retirement income funds – will likely provide them sufficient income until age 95, the planner says.

Now for Yves's pension money. In June, 2021, he will transfer $271,000 tax free to a locked-in retirement account (LIRA). From the balance, he expects to pocket slightly more than $200,000 after paying income tax. Yves wonders whether to use this money to pay down their mortgage debt or to invest in financial markets.

If the couple decide to use the money to pay down debt, they should pay down the mortgage on their principal residence because the interest rate of 3 per cent cannot be deducted for income taxes, Mr. Boland says.

Still, they might be better off investing in financial markets because they already have substantial real estate holdings, he says. Indeed, a possible drop in rental income could dampen the value of their investments if it lasted for any length of time.

Mr. Boland recommends that Yves use up his RRSP contribution room and make the maximum contribution to his RRSP next year to offset the tax on the commuted pension payment – “a portion of which will be at the highest marginal rate of 53.53 per cent.”

Next, Yves and Evelyn should both open tax-free savings accounts and make the maximum allowable contribution. They could set aside the balance of the pension payout for an emergency fund.

“This strategy might be very effective given the recent stock-market collapse and reduction of lending rates,” especially if they persist for the next year or so, Mr. Boland says.

While the near-term outlook is unsettling, Yves and Evelyn have more than a year to go before they semi-retire. As the time approaches, they should review their plans to see if they still make sense, the planner says.

CLIENT SITUATION

The people: Yves, age 42, and Evelyn, age 40.

The problem: Can Yves retire from work after 20 years of service and can he and Evelyn semi-retire in 2021?

The plan: Retire as planned, work part time and eventually live off the income from their rental properties, savings and government benefits.

The payoff: A slower pace of life with more travel and less stress.

Monthly net income: $12,085 (excludes rental income).

Assets: Bank accounts $30,000; his RRSP $110,000; her RRSP $40,000; TFSAs $0; three rental properties $4-million; residence $750,000; commuted value of defined benefit pension plan $700,000. Total: $5.6-million.

Monthly distributions: Mortgage $2,500; condo fees $400; property taxes $250; property insurance $70; utilities and repairs $450; car lease $600; other transportation $570; groceries $300; clothing $100; phone, internet, cable $400; vacation $500; entertainment, dining out, drinks $3,100; personal care $200; club memberships, sports, hobbies $120; subscriptions $30; charitable donations $100; RRSPs $320; Total: $10,010. Surplus goes to unallocated spending, saving.

Liabilities: Mortgage on principal residence $500,000; mortgage and line of credit on real estate properties $1,990,000. Total: $2.5-million.

Some details may be changed to protect the privacy of the persons profiled.