Can this couple retire at age 59?

Retirement success lies in killing the mortgage and adopting a Couch Potato investing strategy

by Julie Cazzin
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Brittany and Wayne Hart are a young couple living in Pickering, Ont. Brittany, 28, earns $80,000 annually with an annual increase of about 3% as an Ontario government employee while Wayne, 33, works in sales earning $45,000 a year with 2% increases in salary annually. The couple has an 18-month-old daughter. Two years ago, they bought their home in Pickering so that both could have easy commutes to their jobs.

“Wayne works in Markham, Ont., and I work in downtown Toronto, so it was a good option for us,” says Brittany. “We really wanted to be close to work but also have a nice environment to raise our daughter.”

The couple loves to travel and is motivated to retire when Brittany is 59 and Wayne is 63. “I would love to retire at 50 but I know my husband and I will not,” says Brittany. “But retiring a little before I turn 60 is something we’d like to aim for. I just don’t know if we can do it because mortgage payments, daycare and debt repayment, we have a hard time saving much money.”

Still, the couple monitors their budget closely. They have $151,000 in assets and it breaks down like this. Their home is worth $520,000 and liabilities consist of a $350,000 mortgage at 2.73%, “but when the term is up it will likely go to 3.6%” says Wayne. (They are paying $1,500 a month and have 29 years left to pay it off.) The couple also recently consolidated their $14,000 in credit card and line of credit debt at 3.5%.

“Most of the money went towards home renovations and covering bills for the last couple of years while I was on maternity leave,” says Brittany. Wayne adds, “There are also some car expenses — the rotator arm needed to be replaced on our car and we also had to pay for other parts and labour. But to be honest, some of the money went to restaurants —pizza night on Friday nights after a long week and cups of coffee at Starbucks. You know, tiny expenses that accumulate. Getting spending under control can be a steep and painful learning curve.”

The couple also has $5,000 outstanding on their RRSP Home Buyers’ loan that they pay $1,000 annually towards. They’re on track to have it paid off by 2023. “We purchased our home through the Home Buyers’ plan and it needs to be repaid,” says Brittany. “But we’re also planning to have another baby this year so our finances will be adjusted.”

The couple met at the University of Waterloo in the anthropology program. “We both loved science and the poverty experience,” laughs Brittany. As a result, the couple spent a couple of years on archeological digs at worksites in both Greece and Belize.

“We want to retire when Brittany is 60 and travel to the most expensive places in the world,” says Wayne. “Australia, Argentina, Easter Island to name a few. We’re adventure travellers and want to go to Bora Bora.” Brittany agrees and adds, “For our honeymoon, we were given the option to go anywhere in the world so we chose Kenya and Tanzania. It was amazing.”

Right now, the couple puts $50 a week into an emergency fund, $50 a week into their young daughter's RESP, $50 a week into an RRSP and $40 a week "into a personal account for fun things," says Wayne. They also save $50 a week for their daughter's extras, such as swimming lessons as well as $50 to put towards their loan repayment.

The couple's biggest expense over the next few years—after their mortgage—is their daycare bill. Once the second baby arrives later this year the couple will have to pay $500 biweekly for the day care when Brittany returns to work ($13,000 annually for three years) and $150 weekly for their eldest daughter Olivia ($7,800 annually) for before and after school care. "These will be heavy spending years for us so I don't think we're going to be able to save much at all in RRSPs and TFSAs," says Wayne.

One positive in their financial picture is that Brittany has excellent health and employee benefits through her government job as does Wayne through his employer. "We coordinate our benefits so we get the maximum allowable back," says Brittany.

These days, Brittany feels lucky about one thing: "I am lucky to have a pension with the Ontario government, which I do not fully understand, but will apparently give me about $42,000 per year when I retire in 2053, based on my current salary," says Brittany. "I belong to AMAPCEO, which stands for the Association of Management, Administrative and Professional Crown Employees of Ontario."

The couple loves to travel and plans to have their home paid off by the time they retire. "I also know that I want to be able to spend money on my children in our retirement," says Brittany. "I know most say to aim for 60% to 70% of your salary, but is that based on today's salary? How do I account for inflation? If Wayne and I want to travel every year and do nice things, like spas, how much do I really need to save? Can someone help us run the numbers that take into account CPP, my government pension, and other government benefits? It just seems like we'll be struggling to save anything for quite a few years but I'm hoping we can get back on track if we take the right financial steps over the next few years."

What the expert says

It's hard to juggle raising a family, living on one income and having huge daycare costs, while at the same time trying to save up for an emergency fund, fund their kids RESP, pay off debt and also save for retirement. "With this many conflicting goals, it is easy to get frustrated, give up and stop paying attention to one's finances completely," says certified financial planner and Vancouver Money Coach Annie Kvick.

Kvick notes that the couple has created some great habits by saving towards things that are important for them and by 'paying themselves first' through setting up automatic contributions to specific savings accounts. "That will be of great benefit when Brittany goes back to work and they have two children in daycare," notes Kvick. "These habits will help them long-term while also preventing them from adding any more debt over the next few years."

Kvick has run the numbers and says that when the couple's mortgage and other debt is paid off and they don't have to pay for daycare costs or save towards their children's RESPs anymore, they will likely only need about $50,000 net per year for their basic expenses in retirement.

“This is about 60% of what they are spending today,” says Kvick. “If their long-term goals are to travel while at the same time being able to spend some money on their kids and other luxuries, they might need an additional $10,000 – $15,000 a year in retirement (or about 70% – 75% of what they are spending today).

Brittany’s government pension plan along with their Canada Pension Plan (CPP) and Old Age Security (OAS) will create a solid base for them in retirement.” In fact, these alone will provide a retirement net income of about $65,000 a year (75% of what they need in annual income) if they want to retire when Brittany is 59 years old.

The good news is that Brittany and Wayne don’t really need to save anything towards their retirement to be okay—at least, not over the next few years, or even when the kids are still in school. “Once their short-term goals to provide for their growing family are achieved—and they’ve paid off their personal debt—they can then resume saving for retirement or simply chose to pay down their mortgage faster,” says Kvick.

If they choose to, the couple can likely save $5,000 to $10,000 per year starting in 10 years and these extra savings will be able to create additional retirement income of $4,000 – $8,000 a year for total retirement spending of $69,000 – $73,000 net per year. They can achieve this by simply putting this extra money in TFSAs or RRSPs and investing the money in a conservative balanced fund or low-fee index funds that are invested 60% in equities and 40% in fixed income securities—the portfolio mix for a simple couch potato portfolio.

The Couch Potato strategy, if the Harts are new to the idea, is a simple method of building a diversified, low-maintenance portfolio of index funds designed to deliver the returns of the stock and bond markets with minimal cost. Instead of trying to beat the market, index funds simply try to match it—and by doing so they’ve consistently outperformed the vast majority of actively managed funds over the long term.

The most attractive feature of the Couch Potato strategy has always been its low fees, especially when compared with actively managed mutual funds. Such a portfolio should give them a 4.5% rate of return on investments—more than enough to give them the money they need to augment their pension income once they retire,” says Kvick. (The Harts can start learning now more about the MoneySense-endorsed Couch Potato approach.)

“The important step is knowing where they stand financially and that they continue to make smart financial decisions,” says Kvick. “If they do, they can now create the life they want and be able to enjoy the adventure, both today and well into old age.

**Assumptions used: 4.5% rate of return on investments, inflation 2.5%, money needed to age 90*

WHERE THEY STAND

Assets

- House $520,00

Total Assets $520,000

Liabilities

- Mortgage (at 2.73%) $350,000
- Line of credit (3.5%) $14,000
- RRSP Home Buyers' loan $5,000

Total liabilities $369,000

TOTAL NET WORTH* $151,000

* Assets minus liabilities