Can we retire in 10 years and earn $50,000 annually?

Sally and Wade hope to have an annual income of $50,000 annually from pensions and investments

by Janet Gray Feb 20, 2019

Q. I would like to know if we are on track to retire in 10 years with a target annual income of $50,000. My husband Wade and I are both 48-years-old. We have a paid-off home valued at $450,000 as well as a second property that we've paid $200,000 on that my elderly aunt is living in. (She pays no rent).

Our liquid assets include: $315,000 in an RRSP, $94,000 in TFSAs, $129,000 in LIRAs., and $96,000 in non-registered investments and all of the investments in these accounts are returning on average 4% net per year. We have no debts.

I am not employed but Wade is a full-time factory worker with an annual gross income of $80,000. He plans to retire at age 58, with a company pension of $29,000 annually. Are we on track to do it? Thanks from both of us,

— Sally and Wade

A. Sally and Wade, I'm glad to see that you are looking closer at your retirement at this 10-years-remaining point. You are doing well in many ways—no debt, several investments including RRSPs, LIRAs, TFSAs, Non-registered investments, real estate, and your principal residence. You also have another 10 years of Wayne's income to add to the savings. That's all great news.

Assuming that you need $50,000 of after-tax income, you will have several income sources where you will be able to draw this amount. With a planned retirement of ages 57/58, you would not yet be eligible for CPP so your income sources at that point would be Wade's pension plus your own savings.

With $29,000 from Wade's pension, (net after taxes is $25,479) you could add $25,000 from your TFSA or non-registered accounts to that amount to give you the $50,000 annually you require for two or three years. At age 60, you could then both take reduced CPP benefits. The maximum at age 60 is $8,121.96 each. Add the net CPP to Wade's pension, and the amount is now $40,095 net combined. So the 'gap' needed from personal savings has decreased to $10,000 net.

One thing to keep in mind is that often with a company pension, there may be a CPP bridge benefit. Check with Wade's pension contact to confirm whether there is or now. A CPP bridge pays a similar amount to what the CPP benefit would be at age 65. This is paid combined with the pension benefit—but will end at age 65. If Wade's pension does include one, then I suggest Wade wait to claim his CPP until age 65 which will be a larger benefit than at age 60 (age 65 maximum is $13,610/year). I recommend you check with Service Canada as to what benefits you can personally expect. At age 65, if you have both lived in Canada for 40 years past age 18, you could receive Old Age Security (OAS) of $7,210 year each. Total net income could now be $48,392 combined. Your income gap to fill from savings is less than $2,000 net per year.

So the answer is yes, you are on track. I encourage you to confirm your benefits, specifically for the CPP and pension bridge. Another important thing to know is whether the pension is indexed. Both CPP and OAS benefits are indexed.

Also, don't forget taxes. The $200,000 value of the 2nd property is before capital gains taxes are calculated, which are due at time of sale. Both RRSP and LIRA withdrawals are fully taxed, and you should try to defer withdrawals as long as possible — to age 72 at the latest — in order to defer taxes owing on the withdrawals. So take withdrawals first from tax-free sources (TFSAs) or tax-advantaged ones like dividend or capital gains investments within your non-registered account.

Continue to keep low or no liabilities. Maintain investments that are low-fee and earning at least 2.5% or more in order to offset inflation. You are on your way — enjoy!

Janet Gray is a Certified Financial Planner with Money Coaches Canada.