Can you swing early retirement, financially? Try a “test drive”

Julie and Peter are on track to have $100,000 after taxes to spend in retirement. It may even be more than they need.

by Janet Gray May 1, 2019

Q. My husband, Peter, and I disagree on whether or not we will be financially ready to retire at age 60. I am currently 56 and plan on working until 60. My husband is 58 years old and thinks he has to work to age 65 for us to retire well. I would like him to retire at age 60 or 62.

I currently work full time and earn $115,000 per year. My husband earns about the same, and also has a pension from his previous employer that nets us $4,500 per month (this goes directly into our investment portfolio). When my husband retires from his current job he will have another pension but it will be small and obviously will depend on how long he stays at this job. Right now I think it will pay him about $1,000 a month if he retires at age 60.

We own two homes with no mortgage, each valued at $650,000, and are currently living between the two homes and paying all the regular expenses associated with running both households. We also own a piece of property that is probably worth $30,000 and we’ll likely hang on to that for the foreseeable future.

We have just over $600,000 in investments that include a combination of RRSPs, tax-free savings (TFSAs) and non-registered investments. We have over $100,000 in a general savings account and $30,000 in a chequing account. When we retire we will either sell one of our properties or rent it out (it has a rental value of $2,500 per month). We will continue to invest a minimum of $4,500 per month into our investments until retirement.

Ideally, we would like to have about $100,000 net per year to live on in retirement. Given what we currently have in pension, real estate, investments and savings, are we on the right track to a decent retirement?
– Julie

A. I am very confident that you are on the right track to the retirement you describe. In order to run the numbers for you, I had to make some assumptions: that Peter's two pensions have a 50% survivor spouse benefit, and that both pensions are indexed to inflation. I also assumed a balanced investment portfolio of 50% bonds and 50% stocks for a return of about 3.75% annually.

I think you should fairly easily be able to have $100,000 after tax to spend in retirement, even up to age 100. Most of that will come from the two pensions, as well as income from either the sale or rental of your second home. If there is a pension bridge to age 65 and/or while you are still working, I suggest deferring Canada Pension Plan (CPP) until your working income has ended. Old Age Security (OAS) will be a full benefit if you have both lived in Canada for 40 years since age 18.

My projections show no OAS clawback for you and very little clawback for your spouse. A good strategy going forward is to continue to use pension splitting to share the taxable income and lower your combined tax rates. You didn't indicate where you live, so it's difficult to project the future value of your properties; that will influence your asset balance. Remember to speak with an accountant to clarify the potential tax consequences if you sell. As well, the accountant can also help you decide which property to designate under the principal residence tax exemption so you maximize your net profits.

Finally, I also recommend doing a "test drive" of retirement expenses and income before you retire. Allocate $100,000 after tax to spend on your lifestyle for the next couple of years while you're still working. Look at your current spending categories and where you can reduce or eliminate some of the costs. Save and/or invest any surplus. You may find that you could retire even earlier than planned. On the flipside, if you want a higher amount to spend in retirement, you could work longer. Either way, you have a great base with the two pension incomes and your investments (including the real estate). Ensure that you clarify the pension benefits, including the details on surviving spouse and indexation; review your asset allocation; and consider your retirement expenses. Best wishes for your retirement.