Getting a head start on their golden years

Tim is 47, and his wife is 46. They're aggressively paying off their mortgage and will have defined benefit pension plans to lean on. Can they swing retirement at 50?

by Janet Gray Aug 9, 2019

Q. I am 47 years old and my wife is 46. We plan on retiring at age 50 which is very soon for both of us. I wanted to share my plan and see if the numbers I have crunched are correct.

Our home is worth $700,000 and are aggressively paying down the remaining $140,000 on our mortgage so we will own the house outright by the time we are both 50. Our payment is $4,000 per month and our mortgage is at 2.39%.

Right now, we have $190,000 combined in RRSPs and will be adding another $40,000 in the years before our target retirement. When I turn 50 my wife will work one more year as a nurse so I won't draw any RRSP that year. After that year we will take each out $25,000 annually until we reach 55, which will total $100,000 for me and $125,000 for my wife because she's slightly younger. This means I will need $225,000 in RRSPs at a minimum. I recently modified our RRSP investment mix to 15% in U.S./Canadian/International market indexes and the remaining 85% in bonds. That's probably not ideal but I can't afford to lose our RRSP money at this point or our plan won't work.

By taking our pensions early, my wife and I will forgo our maximum benefits. At age 55, I will receive $2,400 per month for life, plus a bridge benefit of $267 that will end at 65. My wife will get $2,818 per month for life, plus a bridge of $337 per month until age 65. (These are through the Healthcare of Ontario Pension Plan.)

At age 60, both my wife and I will receive $800 per month in Canada Pension Plan (CPP) benefits, then another $600 per month in Old Age Security (OAS) at age 65—possibly more. Our goal is to stay in our house until we can no longer live there; at that point, I'm thinking we would sell it and buy annuities with the proceeds. When coupled with our regular pension, the annuities could help fund a stay in a rather deluxe retirement home. I also qualified for a home equity line of credit (HELOC) for $300,000 just in case we need money for emergencies that may arise between ages 50 and 55. Of course, we hope not to need it.

So, that's the plan. Have I missed anything that could compromise our retirement years?
–Tim

A. Tim, questions like yours are more and more common these days, mostly due to the buzz around the FIRE (Financial Independence, Retire Early) movement. Once you have little or no debt, as well as sufficient savings (from living well below your means), you can quit your full-time job to travel, spend more time with family and friends, or pursue other financial goals.

The concept of financial independence includes a lot of planning and smart financial strategies for saving and spending. Tim, you are well on your way to being financially independent. Both you and your wife will get decent sums from defined benefit pensions that will last a lifetime and also be indexed to inflation. Second, you both plan to retire with no debt or mortgage, and will withdraw from your RRSPs* until your pensions start at age 50 to smooth out your income until the pensions start.

But you haven't indicated what your expected retirement lifestyle expenses will be. If there is a gap between what income your RRSPs will provide and what your lifestyle costs are, you will need to either withdraw a larger amount from savings, or supplement your savings with earned income.

What many people forget to add into the equation is that RRSP withdrawals are 100% taxable (as are pensions). If you are each withdrawing $25,000 annually in the first five years, expect to pay about 20% as your marginal tax rate. Your RRSP holder (bank or other financial institution) has to withhold taxes at the time of your withdrawal—but this estimated amount could be too much or too little, so be prepared for adjustments along the way. As well, many RRSP holders are not able to set up monthly withdrawals on RRSP accounts, so you may have to do a series of larger withdrawals throughout the year.

And don’t forget inflation. Each year, your cost of living increases—and so will the required income to keep up with it, or you will lose purchasing power. The good news is that with your current asset allocation of 15% equities and 85% bonds, you can expect a 3% average annual rate of return, which keeps you just ahead of inflation. Your RRSPs will be completely depleted in the five years after retirement, so you want the investments to be safe and less volatile—which is what you currently have.

You will have infrequent large purchases throughout retirement, so ensure you have savings to replace a car, for instance, or do much-needed home maintenance, such as a roof repair or new windows as needed. And while the home equity line of credit (HELOC) is handy to have, if you dip into it, you will still need to support the interest payments along the way and be prepared to make the principal payment if the bank demands it.

As well, you don’t mention if the group benefits plan with your employer allows you to continue with your health and dental benefits, as well as your life insurance. If not, you may have to buy insurance plans for these on your own, or simply pay-as-you-go as dental work and other health expenses arise.

As with any financial plan, even one as well-thought-out as yours, continue to review and modify it as new information or circumstances arise. You are off to a great start. Good luck.

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