How a semi-retired man with 'limited resources' can figure out his expenses and stop working

DIANNE MALEY
SPECIAL TO THE GLOBE AND MAIL
PUBLISHED JULY 5 2019

Joe describes himself as a "regular working guy with limited resources" who at age 66 is trying to figure out how to cover his living expenses.

He is semi-retired, collecting an indexed pension from a previous employer, Canada Pension Plan and Old Age Security benefits, plus a small disability pension that will run out at age 70. Joe supplements his income by doing seasonal work in the summer, but he's physically limited in what he can do.

Joe's overriding concern is to keep his rustic cabin – on leased land with no services in a prime B.C. location – for as long as possible. He knows it will be tight so he's aiming for a 12-per-cent return on his investments, much higher than the 2 per cent he's earning currently.

"For the past couple of years, I have been upgrading my financial-planning knowledge for retirement by going to night school and wading through vast amounts of economic information," Joe writes in an e-mail. His retirement spending goal is $48,000 a year after tax.

"How soon can I realistically stop working?" Joe asks.

We asked Christine Williston, a certified financial planner at Money Coaches Canada in Vancouver, to look at Joe's situation.

WHAT THE EXPERT SAYS

Joe's retirement spending goal of $48,000 a year is ambitious given his resources, Ms. Williston says. He faces the same dilemma as many other Canadians: work longer or plan to spend less in retirement.

If Joe quit doing seasonal work today, he could sustain an after-tax income of $35,700 a year (from pension, benefits and savings) in 2019 dollars to the age of 95. That's about $6,000 a year – or $500 a month – less than he is spending now.

Joe's pension and benefit income breaks down as follows: $9,984 CPP, $7,212 OAS, $8,904 work pension and $4,620 from a non-taxable disability pension that will end at age 70, for a total of $30,720 before tax.

Looking at Joe's expenses, he could probably cut back on groceries and dining, drinks and entertainment. As well, he might be able to shave a bit from his communications bill.

Otherwise, he lives modestly. His other notable expense – a discretionary one – is his cabin: $200 a month for the land lease and $300 a month for tools and material needed to fix it up. That's in addition to the $1,050 rent he pays for his apartment in the city.

If Joe could cut his grocery bill to $500 a month, he would need total income – pensions, benefits and work – of $42,800 a year to keep his cabin, the planner says. He could do this by working four months of the year earning $4,500 a month, for an annual employment income of $18,000. As soon as he stops working, he will have to sell at least a half-interest in the cabin.

Altogether, his RRSP, TFSA and non-registered portfolio total a bit less than $200,000. Joe's savings – mainly bank accounts and guaranteed investment certificates – are earning an average 2.41 per cent. That's little better than inflation, which the planner assumes to be 2 per cent.

Joe's hope for a 12-per-cent rate of return on his investments is not realistic, the planner says. He is not an experienced investor. Still, he will have to take on some stock-market risk to achieve a higher return. Ms. Williston recommends an asset mix of 60 per cent stocks and 40 per cent fixed income – "equities for growth and fixed-income for stability" – with a management expense ratio (MER) of less than 1 per cent a year.

"Options for him to consider are robo-advisers, also known as online portfolio managers [MERs of about 0.6 per cent], asset allocation exchange-traded funds [about 0.25 per cent] or if he can find someone to assist him, a self-directed model portfolio [about 0.15 per cent]."

Unfortunately, Joe has left things very late in the day, Ms. Williston says. It would have been better if he had reached out for help before deciding to start collecting CPP and OAS benefits. If he had postponed the benefits to age 70, he would get 37 per cent more in CPP and 36 per cent more in OAS.

However, if Joe has been collecting CPP and OAS for less than six months, he has the option of cancelling his benefits and deferring them to age 70, Ms. Williston says. But he would have to repay what he has received to date. Joe is contributing his government benefits to his RRSP. In addition to his RRSP contributions, Joe should contribute the maximum each year to his TFSA, adding any other available funds to his non-registered account.

Joe's cabin is a hike in from the main road and off the electrical grid. "At some point as he ages, he will become unable to continue to use it," Ms. Williston says. Joe could sell the cabin in 15 years [at the age of 81] and add the sale proceeds to his portfolio. Joe has said he would part with the cabin to pay for health care if it was "absolutely necessary."

One option for Joe is to consider selling a half-share of the cabin now, Ms. Williston says. Some of Joe's neighbours have already done so. He'd get some cash, his lease payment would fall to $100 a month and he might even be able to find a partner to cover the cost of tools and building material in exchange for Joe doing the work. This could save another $300 a month.

If he sells a half-interest in his cabin now under such favourable terms and uses the funds from the sale – plus funds from his non-registered account – to max out his RRSP and TFSA each year until the non-registered funds run out, Joe could have a sustainable income of

$37,980 a year after tax, which will cover his reduced living expenses ($500 for groceries, $100 for cabin rent and zero maintenance). He could then keep a half-interest in the cabin for as long as he chooses. "This would allow him to retire completely now," Ms. Williston says.

If he decides to keep sole interest in the cabin now while he is earning $18,000 a year, he will have to sell a half-interest at age 70, the planner says. He could use the funds in his non-registered account to contribute to his TFSA and RRSP while he is working. Then he could shift the proceeds of the cabin sale to his TFSA gradually when he gets new TFSA contribution room every January.

Once a half-interest in the cabin is sold, he should be able to generate $39,700 a year after tax, Ms. Williston says. "This will allow him to keep an interest in the cabin as long as possible."

CLIENT SITUATION

The person: Joe, 66

The problem: Can he afford to enjoy his quiet cabin after he retires fully from work?

The plan: Keep working part time as long as he is able. Diversify his portfolio for better returns. Consider selling a half-share in the cabin now.

The payoff: The post-work lifestyle he has been anticipating for so long.

Monthly income (2018): $3,600

Assets: Savings/non-registered account $38,000; TFSA $50,500; RRSP $105,750; commuted value of work pension $184,000; cabin $100,000. Total: $478,250

Monthly outlays: Rent $1,050; electricity $25; cabin lease $200; transportation $590; groceries and household sundries $900; clothing $30; dining, drinks, entertainment $350; subscriptions $40; tools and material for cabin improvements $300; health care $250; vitamins, supplements $75; phones, internet, TV $190. Total: $4,000. Shortfall of $400 comes from savings.

Liabilities: None

Want a free financial facelift? E-mail finfacelift@gmail.com.

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