How much longer does this single parent with depleted savings have to work?

DIANNE MALEY
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After a costly divorce depleted her savings, Louisa faces the challenge of raising two children in Vancouver on a salary of $67,000 a year. She and her ex-husband share custody of the children.

Her dream is to retire from her writing job by the age of 60, sell her downtown condo, and buy a little cabin on one of B.C.'s Gulf Islands. She is 47, the children are 9 and 11.

Short-term, Louisa has her sights set on a family trip to Japan in August, 2020. She estimates this will cost $10,000. Also, her car is coming off lease in 2020 and she wants to exercise the buyout of $6,000.

Her main asset is her condo, valued at $650,000 and mortgaged to the tune of $290,000. She also has a defined-benefit pension plan at work that will pay her $14,340 a year beginning at the age of 65.

How much longer does she have to work?

We asked Nick Boland, a financial planner at Money Coaches Canada in Toronto, to look at Louisa's situation.

WHAT THE EXPERT SAYS

"In the short term, Louisa's finances are tight," Mr. Boland says. "Her cash inflows essentially match her cash outflows." If she wants to take a trip to Japan and buy out her car lease, she will have to come up with $16,000. Borrowing the money would not be advisable because it could compromise her long-term goals, the planner says.

"Louisa is going to have to spread these goals out." The buyout of her car lease is the first priority, and she needs to save for that over the next year. She could defer the trip to Japan for another year or two.

Louisa is contributing $200 a month to her registered retirement savings plan. This is more than the $139 a month needed to pay back the $25,000 she borrowed from her RRSP under the federal Home Buyers Plan. Because money is in short supply, she could reduce her RRSP contribution to $139 a month. This will save her $61 monthly.

If she wants to buy out the car lease when it comes due next year and travel to Japan in two years, she would have to tuck away $667 a month, Mr. Boland says. So she needs to find another $606 a month in savings.

After she buys out the car lease, she will have another $200 a month to put toward the Japan trip. She should consider putting the money in a high-interest, tax-free savings account to shelter the interest income from tax, he says.

If this savings plan is too aggressive, she could delay the trip to Japan, aiming for three years rather than two. Over three years, she would need to save $444 a month or an additional $383 a month beyond the reduction in the RRSP contribution. The elimination of the car lease payment will be a part of this in years two and three.

Louisa does not have an emergency fund. "It would be great to see her start to try and build one after she has saved for her $16,000 in short-term goals," Mr. Boland says. She could do this by making monthly contributions to a high-interest tax-free savings account.

When Louisa retires, it is her dream to sell her condo in Vancouver and retire to a cabin in the Gulf Islands or Vancouver Island, the planner says. "This move could generate some significant cash that she can use to fund her retirement."

The difference in price between these two properties now is about $350,000. "If we assume 2 per cent inflation in B.C. real estate annually, this differential will grow over time," Mr. Boland says. The Vancouver condo could outpace inflation because it is centrally located close to transportation. "As Louisa pays down her mortgage, this cash generation on the house swap will grow," he adds.

When she sells she will have to pay realty fees, and land transfer tax when she buys, as well as legal and other costs related to moving. "When you factor all this in, it is estimated that if Louisa retires at 65, she will generate $450,000 in cash for retirement," the planner says. "If she retires at 60, it is estimated she will generate $300,000, and if she retires at 58, she will create a retirement nest egg of $260,000."

Louisa has a pension plan to which her employer contributes 5 per cent of her salary on her behalf. Louisa does not make any contributions. If she retires at 65, she is entitled to an annual pension of $14,340. The pension entitlement decreases for every year she retires early. Louisa is entitled to Canada Pension Plan benefits of $11,200 at 65 as well as full Old Age Security benefits.

Louisa believes that she can live on $25,000 to $30,000 a year after she has quit working.

"If Louisa retires at 65 and swaps her Vancouver condo for a dream cabin, things are looking good," Mr. Boland says. She will have combined income (work pension and government benefits) estimated at $40,000 (in future dollars), she will have generated $450,000 in the home swap and her RRSP will have increased to $125,000. This assumes she continues to contribute the same amount and earns a rate of return of 4 per cent a year consistently. If Louisa lives to 95, she could spend $40,000 in current value dollars (or $55,000 in future dollars), which is higher than her target.

"If she retires at 60, the math becomes tighter," Mr. Boland says. Her work pension income is reduced to $8,720 annually, and her nest egg from the asset swap is estimated to be $300,000. (This assumes a mortgage balance of $96,000.) "This scenario will allow her to spend $29,000 (current dollars) in retirement." If she retires from her job at 58, the sustainable retirement spending drops to $25,000 (in current dollars), the planner says.

Louisa's keys to a successful retirement are to keep paying down the mortgage and avoid taking on any more debt. Her mortgage will be paid off in 18 years when she turns 65.

"Home equity is an important lever to fund her retirement," Mr. Boland says. "If the Vancouver condo appreciates faster than 2 per cent a year, the whole retirement timeline can accelerate," he says. "Conversely, there is also risk to this plan if her real estate underperforms the long-term growth rate assumption."

CLIENT SITUATION

The people: Louisa, 47, and her two children

The problem: Can she afford to retire by age 60 and move to the Gulf Islands?

The plan: Pay down the mortgage, avoid taking on new debt and be prepared to work beyond the age of 60 to put herself on a sound financial footing.

The payoff: A comfortable retirement in an idyllic location

Monthly net income: $4,325

Assets: Condo $650,000; RRSPs $44,000; RESP $70,000; estimated present value of defined benefit pension plan $150,000. Total: $914,000

Monthly distributions: Mortgage $1,660; condo fees $375; property taxes $240; property insurance $45; utilities and repairs $69; transportation (lease payments, gas, car insurance, maintenance, parking) $512; groceries $400; clothing $100; phone, internet, cable $232; vacation $50; entertainment, dining out, alcohol, hobbies, personal care $175; health care expenses $220; RRSP $200. Total: $4,278

Liabilities: Mortgage $290,000; Home Buyers Loan $23,000. Total: $313,000