How soon can Scott retire without jeopardizing his family's goals?

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Scott and Cynthia want to know how soon they can retire from work, sell their home in the city and buy a more expensive house on a lake in cottage country. He is 56 and earns $110,000 a year in the tech field. She is 57 and recently left her job. They have three adult children.

The new house could cost up to $100,000 more than they would net by selling their existing home. In addition, they plan to buy a fifth-wheel camper and a pickup truck some time in the next five years at a cost of $160,000 to $180,000. When Scott quits working, they plan to spend more time with their grandchildren and "get away from winter for a while every year."

They have savings and investments, including Scott's defined contribution pension plan to which both he and his employer contribute, and other plans from previous employers. They have no debt. Their retirement spending goal is $60,000 a year after tax.

"Is retiring at the end of 2020 or mid-2021 feasible?" Scott asks. They wonder, too, when to start taking Canada Pension Plan and Old Age Security benefits.

We asked Barbara Knoblach, a certified financial planner at Money Coaches Canada in Edmonton, to look at Cynthia and Scott's situation.

What the expert says

Because Scott and Cynthia are aiming to retire before the traditional retirement age of 65, they have fewer years to make contributions to their savings and more years to spend in the drawdown stage, Ms. Knoblach says. "Effectively, they could spend as many, if not even more, years in retirement as they have spent being active in the workplace," the planner says. Hence they are wondering whether they have enough to retire and live the life they want.

Scott and Cynthia have accumulated about $1,227,000 in retirement assets, distributed over a variety of accounts. In addition to personal registered retirement savings plans and tax-free savings accounts, Cynthia has a spousal RRSP to which Scott is making contributions. They have holdings in defined contribution pension plans from different employers, and Scott has a locked-in retirement account.

Their investments are with a boutique wealth management firm in a balanced portfolio that has averaged a rate of return of 4 per cent to 5 per cent over the past several years. "They are satisfied with their investment strategy and do not want to make any significant changes," the planner says. Scott is adding $18,000 a year to his DC pension plan.

To see whether Scott and Cynthia can achieve their retirement goals – spending $60,000 a year, buying a more expensive house and a truck and trailer – Ms. Knoblach runs the numbers for five different scenarios. None has them achieving all three goals.

If Scott and Cynthia were to retire fully by the end of the current year and start collecting their CPP benefits at age 60, they could anticipate inflation-adjusted after-tax spending power of $61,700 a year, the planner says. That assumes they forgo the more expensive house and the truck and trailer. Her projections extend to their ages 95.

If they were to retire at year end and defer their government benefits till age 65, they could increase their spending power to $63,000 a year. Again, no house upgrade and no truck and trailer.

If Scott and Cynthia were to buy the more expensive home in 2021, immediately after Scott retired, their spending power would be reduced to $56,000 a year. This scenario assumes they start collecting CPP at age 65. "The target spending power of $60,000 is not met," Ms. Knoblach says. "Because they are planning for a more expensive home with potentially higher property taxes and maintenance costs, they could feel a real pinch," she adds. "Their discretionary income could simply be too low to maintain a comfortable lifestyle in retirement." In this calculation, no truck and trailer.

If, over and above the more expensive home, they also decided to purchase a truck and camper in 2022 at a cost of $160,000, their spending power in retirement would plummet to $48,200 a year, way short of their $60,000 target, the planner says. Much of the money to buy the truck and trailer would have to come from their RRSPs, leading to a hefty tax bill and premature depletion of the accounts, she notes.

In the final scenario, Scott works to the end of 2022. This additional year would improve their spending power to $51,700 a year, including the more expensive home and buying the truck and trailer.

"All scenarios appear uncomfortably tight," Ms. Knoblach says.

There are some things Scott and Cynthia could do to help them achieve their goals, Ms. Knoblach says. Rather than trading up to a more expensive home, they could buy a smaller, less expensive place in the same cottage-country location. This would be a lateral trade with no additional expense.

"Any real estate transactions should ideally be done while Scott is still working in case some bridge financing is required," the planner says. "Lenders look more at a client's income than their assets when qualifying for financing."

As well, they should hold off on buying the camper and pickup until they have made the transition to the cottage. Then, they can re-evaluate their asset base to determine whether the purchase of a less expensive vehicle is feasible, she says. They could consider buying one vehicle, such as a used RV, rather than a truck and trailer. "Such a purchase should be made using after-tax dollars."

They may also want to consider renting a recreational vehicle.

Finally, Scott is working in a profession that lends itself to doing some online or consulting work. Before submitting his resignation, “he should aim to set himself up for generating an income stream that will allow them to defer drawing on their investments for as long as possible,” Ms. Knoblach says.

Scott and Cynthia will be living in retirement for many years, and some unexpected circumstances may arise that may cause more rapid depletion of their retirement savings than they had envisioned, the planner notes. Such an event could be entirely out of their control.

“Setting themselves up for a Plan B will give them some peace of mind.”

CLIENT SITUATION

The people: Scott, 56, Cynthia, 57, and their children

The problem: How soon can Scott retire without jeopardizing their goals – spending $60,000 a year, moving to a more expensive house and buying a truck and trailer?

The plan: Because all three goals can’t be achieved, consider working a bit longer and/or buying a more modest cottage-country house and a used RV.

The payoff: A degree of financial security.

Monthly net income (after taxes and pension plan contributions): $6,545

Assets: Cash and short term $30,000; stocks $79,300; his TFSA $70,800; her TFSA $68,700; his RRSP $135,000; her RRSPs $340,200; his locked-in retirement account $26,000; his defined contribution pension plan $428,100; her defined contribution pension plans $78,500; residence $550,000. Total: $1.8-million

Monthly outlays: Property tax $440; home insurance $55; utilities $300; maintenance $500; transportation $450; groceries $865; clothing $170; gifts $55; vacation, travel $565; dining, drinks, entertainment $755; personal care $200; subscriptions $40; other personal $180; health care, life insurance $160; phones, TV, internet $295; RRSPs $160. Total: $5,190. (Surplus of $1,355 goes to TFSAs, other saving.)

Liabilities: None