Is this part-time teacher on track to retire in 9 years?

About $40,000 annually in retirement would make it work. Can Sarah do it?

by Julie Cazzin
December 18th, 2017

Sarah Press is 41 years old and working as a part-time teacher in Toronto. She also has what she calls some "side gigs" cleaning houses so that she can earn additional income that she hopes will allow her to retire at 50 on a reduced pension. "My true retirement age with the school board is 54 but I'm aiming to go earlier," says Sarah. "I know retirement at 50 is an ambitious goal for me, especially because I've only worked part-time the last eight years. Still, it would be great if I could do it. Teaching is so stressful, and I have so many hobbies that I could retire tomorrow and fill my days with no problem. I love gardening, baking and I'm also very entrepreneurial so spending more time on those interests is what I'm most looking forward to at 50."

Right now, Sarah earns $55,000 annually—$50,000 annually from her teaching job and another $5,000 in income from her side jobs. Her assets total $775,000 with her largest being her $675,000 condo in Toronto. She's a few months away from being mortgage free and hopes to put the $8,000 or so annually that she's paying on her mortgage towards savings in 2018. Carrying costs and maintenance on her condo—including property taxes, insurance and maintenance come to about $9,000 annually.

Sarah's other assets include a TFSA worth $50,000, to which she's currently contributing $5,000 annually as well as $50,000 in RRSPs, to which she's not contributing anything at all. "I'm making about $55,000 annually and money is limited so I think topping up my TFSA contribution annually is the right choice for me," says Sarah. "That, and paying off my condo mortgage next year are my two biggest financial goals."

Right now, all of Sarah's TFSA and RRSP money is invested completely in Canadian, U.S. and international high growth equity mutual funds with a local bank. She's gotten decent returns over the last few years and likes the fact that she doesn't have to manage her own investments. "I'm good with that," says Sarah, who says her best investment over the years has been real estate. In fact, she's owned four properties in 15 years and credits some of her financial success to buying and selling those four properties over the years.

Still, it's her teaching job that pays the bills. "My teaching job is solid and predictable and doing it part-time allows me to do things that I think are better for my soul—cooking, scrapbooking and the like," says Sarah.

Sarah says she feels comfortable with her TFSA and RRSP money completely invested in high growth equity investments, mainly because she has a modest Defined Benefit Pension (indexed to inflation) of $21,000 annually should she take it early at age 50. It will come with a CPP top-up of

$4,000 annually until age 65. "That's $25,000 a year annually until age 65," says Sarah, who wonders whether she should take Old Age Security and CPP at age 65—or wait until later. "I'm a fairly frugal person and plan to continue earning about $5,000 annually or so in income even after I retire from teaching at age 50," says Sarah. "Most of that money will come from cleaning houses, making wedding invitations and scrap-booking—even after I retire from teaching."

The wildcard? Her condo. Once Sarah has finished paying the mortgage next year, she'll be saving $8,000 annually that she now puts towards the mortgage. She just isn't sure what to do with that extra money. She's already contributing $5,000 to her TFSA annually. "I'd love to move to a smaller city and maybe use the extra $8,000 annually to save up for a tiny home with a garden, perhaps in Peterborough or Belleville, Ont.," says Sarah. The likely cost? About $300,000.

Sarah lives on $30,000 net annually today and wonders if that will be enough to maintain her lifestyle in nine years. So to be safe, she'd like to factor in an annual income of $40,000 net starting at age 50. That's because she's considering selling her Toronto condo when she moves at age 50 and perhaps taking out an equity line of credit on her condo to pay off the new home in the smaller city completely. "I figure I can then rent out my Toronto condo for about $2,300 a month and make payments on the equity line of credit from that rental income until the equity line of credit is paid off," says Sarah. "Real estate investing has been good to me, but I'm just not sure I'll be able to retire at 50 if I hold on to the condo. And while I'd love to hold on to it, if I have to sell it to make my dream of early retirement come true, I will."

Sarah would like a financial planner to run the numbers for her to help determine if she should keep or sell the condo to make retirement at 50 work for her. "I'd even consider renting for a couple of years outside Toronto when I retire if that's a better option," says Sarah. "Rents are about $1,500 a month for a nice home with a garden in Peterborough, Ont., and areas around there."

Either way, Sarah would like to make sure that her final choice is the best one financially. "If I do decide to sell the condo and buy a house in Bowmanville at age 50, then I'll have $350,000 or so left to put into savings," notes Sarah. "If I chose this option, how should I invest that money? I've always put my TFSA and RRSP money into equity mutual funds and received good returns. I'm tempted to do the same with this extra cash. If I do that, will my money last?"

Where she stands

Home	$675,000
TFSA	$50,000
RRSP	$50,000
Total Assets	**$775,000**

What the expert says

"Good news Sarah, you can do it!" says Janet Gray, a certified financial planner with Money Coaches Canada. "A $40,000 net income in retirement can start at age 50 and will last to age 95 according to projection scenarios."

Gray also thinks that Sarah will have a much better chance of realizing her goal of retirement at 50 if she sells her condo to free up some of the equity to then supplement her reduced pension. "With a

5% annual increase in the value of her condo, it will be worth over $1 million at her age 50," says Gray. "And even if condo increases are smaller—say 3% annually—the numbers still work."

Gray stresses that Sarah's best course of action is to buy a modest home outside of the Toronto area and have no mortgage or equity line of credit debt going into retirement. "Saving the $8,000 annually until age 50 to use as a down payment is a good idea but may not be needed if Toronto if the condo is sold before purchasing another home," says Gray. "I also like her idea of renting for a couple of years in the town she chooses to put down roots in before making her final decision on buying. A few years of renting will allow her some flexibility in the sale of the condo regarding the timing of the market."

Gray has run the numbers. Assuming inflation is 2.5%, and knowing that her pension is indexed–she will have closer to $48,000 annually from age 50 to 95.

Based on current investments of blue-chip mutual funds (which are likely making average 6% annual returns), as well as the likelihood that she will make $5,000 annually on side gigs, continue to save $5000 annually to her TFSA and sell the condo at age 50—Sarah will likely have more than $40,000 income available to her annually.

"A net $40,000 income in retirement allows for a buffer for potential health care costs as well as infrequent but regular vehicle replacement and home maintenance," says Gray. "Most of her equity is in real estate and equity growth mutual funds which on its own may seem higher risk but due to her Defined Benefit Pension Plan, she has a fixed income component which provides balance, and a lifetime pension income."

Regarding CPP, Gray assumed that Sarah would get only 50% of CPP benefit due to her contribution level from part-time work over several years and then early retirement. For instance, at age 60, and in today's collars, 50% of CPP would be $4,300. Taking it at age 65, 50% of CPP would be $6,684 annually but if she waited until age 70, annual CPP would be much greater at $9,500. "It will give her more income to wait until later to take—after age 65, say—but CPP is not the deal breaker for her retirement income," says Gray. "The numbers suggest she will have more than she indicates she wants.

Gray also agrees with Sarah's strategy of topping up her TFSA now and in the future and notes that this is a better strategy than contributing to an RRSP. "Sarah would not get much of a tax deduction at this point due to her lower income, but would then have to pay full tax on any RRSP withdrawals in the future—not a good strategy for her. The sale of her primary residence is, of course, tax-free, but any money invested from the profits will be taxable if outside of a TFSA."

And while Sarah appears happy with her bank mutual fund investment strategy, she should nonetheless watch for the fees and high management expense ratios she is paying on these financial products. "Sarah, you could be paying 2.4% annually, which is the average MER on an equity fund in Canada. That's very high. There are many low fee mutual funds or ETFs available—many with less than 1% in MERs—meaning you get to keep more of your earnings in your pocket—even if you opt for a more conservative mix of mutual funds as you get older." For instance, a 1.5% annual saving on MERs per $100,000 amounts to an extra $1,500 annually in your pocket, with very little effort on your part," says Gray. "Of course, when you sell your condo at retirement and squirrel more of your money away in an investment account, the fee on savings could be several thousand dollars more annually—again, all with almost no extra effort on your part."

Finally, Gray says she can't stress enough that Sarah should be very cautious before buying a property outside Toronto. "Really consider renting before jumping into becoming an out-of-town landlord," says Gray. "Will it be worth the additional hassle of maintenance, tenants, bookkeeping, and accounting? The additional income or increased condo value may come at the price of more inconvenience—something you really don't need in order to secure a comfortable retirement."