# Make the most of sudden windfall

**Jonas and Anika Finn are about to receive $125,000 from the sale of a business. Should they use the money to beef up their meagre retirement savings or buy a home in Vancouver's sky-high real estate market?**

by Julie Cazzin
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If you ask Jonas and Anika Finn about the happiest day of their lives, they can pinpoint it exactly—April 7, 2008, the day they got a second chance at love. Having each come from failed first marriages, Jonas, 43, and Anika, 41, were thrilled to find each other. The couple first started chatting online through the dating site, Lavalife, and met in person a few weeks later on that fateful day. "I had been online dating for a couple of years and had been disappointed," Anika says. "This was going to be my last kick at the can. I wanted a long-term relationship with someone who loves travel and adventure as much as I do. Jonas didn't disappoint."

Jonas admired the honesty of Anika's ad. "She sounded down to earth and I was ready to meet someone to share my life," says Jonas. (We've changed names to protect privacy.) Today, however, after three years of marriage, the Finns find themselves at a crucial financial crossroads. The couple expects a windfall of about $125,000 after Jonas sells his 10% ownership stake in the insurance consultancy where he works and they're not sure what to do with it.

Despite comfortable incomes, the couple has little in the way of savings. Initially the plan was to have a child, but "that didn't happen," says Anika. "That opened up a bunch of new options for us. The only problem is that even though we both have good incomes, we still don't have much in savings."

Jonas earns $140,000 a year at the insurance company, while Anika makes $64,000 as a physiotherapist in North Vancouver. The couple doesn't own their own home. Instead, they rent a one-bedroom condo in downtown Vancouver for $1,840 a month. "It's only recently that we became interested in saving and investing," Anika says. "At our age, we still have no home and no company pensions. So the question is, do we buy a house and spend the next 20 years paying it off? Or do we keep renting our condo and invest the money we're saving each year? The Vancouver housing market is so expensive that it's hard to know which path is best for us."

If the couple decides to purchase property, they will also get $100,000 as a gift from Anika's parents. As a result, they assume they will have approximately

$315,000 as a down payment. There's roughly $63,000 in their TFSAs and non-registered accounts, plus $25,000 from Anika's RRSP by using the Home Buyers' Plan. (Jonas already used this option before their marriage and has since sold that home.) Add these savings to their $125,000 windfall and the $100,000 gift from Anika's parents and their total down payment is about $315,000. "My parents will give us $100,000 on the condition that we buy a house and allow them to rent the basement for $1,500 a month," says Anika. "They're looking to downsize."

**HOW THE MONEY WAS SPENT**

| | |
|---|---|
| **YEARLY DISPOSABLE INCOME** | |
| Jonas's salary and dividends | $140,000 |
| Anika's salary | $64,000 |
| Minus: taxes and other deductions | - $57,561 |
| **NET DISPOSABLE INCOME** | **$146,439** |
| **RRSP REPAYMENTS** | |
| **Debt Repayment** | |
| Jonas's Home Buyers' Plan | $1,333 |
| Anika's Lifelong Learning Plan | $720 |
| **Total debt repayment** | **$2,053** |
| **Shelter** | |
| Rent | $22,080 |
| Tenancy insurance | $259 |
| Hydro/gas/water | $1,020 |
| Cell phone/internet/TV | $2,310 |
| **Total shelter** | **$25,669** |
| **Transportation** | |
| Car insurance | $3,367 |
| Gas | $2,300 |
| Maintenance | $864 |
| **Total transportation** | **$6,531** |
| **Personal** | |
| Groceries | $13,843 |
| Vacation | $11,461 |
| Clothes, gym, entertainment | $4,336 |
| Medical insurance, massage & chiro | $2,327 |
| Charity, gifts, hobbies | $3,680 |
| Restaurants, wine & Starbucks | $7,215 |
| Business expenses, dues | $4,571 |
| Miscellaneous | $7,642 |
| **Total personal** | **$55,075** |
| **TOTAL EXPENSES** | **$89,328** |
| **Annual income available for investment (total income minus total expenses)** | **$57,111** |

The Finns' second option is to continue renting themselves and save every penny they can for retirement. With their current expenses—which include $2,465 annually for Starbucks coffees, $13,843 for organic groceries from Whole Foods, $3,239 in restaurant meals, $11,461 for vacations and $1,511 for wine—the couple could save $57,000 after expenses annually. "Our condo rent is so reasonable, I feel that simply investing the money for the next 15 years would secure our financial future," Jonas says. "It would certainly give us the flexibility to travel during retirement and live in Hawaii for part of each year. But would it be a wise financial strategy to go into retirement without a principal residence? We just aren't sure."

Jonas and Anika both grew up on farms in northern Alberta: these hard working farm families knew how to handle money. "My parents scraped for every dime and worked hard all their lives," says Jonas, the youngest of six children. "Mom sold eggs and homemade blankets, while dad fixed farm machinery. Although I have their work ethic, they never shared any thoughts on managing money with me."

Jonas graduated from high school in 1988 and went on to study high tech in Calgary at a local college. His first job was with a small tech company and he worked there seven years before striking out on his own. Anika graduated in 1990, worked 11 years for a small manufacturing company, then went back to school to study physiotherapy. Today, she teaches part-time at a local college and is selfemployed at a clinic with several other medical practitioners.

Both Jonas and Anika walked away from their previous marriages with some debt. “I used a $30,000 settlement from my divorce to pay off my college bills and credit-card debt,” Anika says. Jonas’ debt increased after leaving his initial job and striking out on his own. Despite inventing software for the agricultural industry, he closed his business when he was about $200,000 in debt. “I just finished paying off my debt four years ago,” he says.

After meeting in 2008, the couple married in 2010 and spent the last three years saving and investing in earnest. Each contributes to a Tax-Free Savings Account and RRSP. While they have some of their investments in exchange-traded funds and dividend-paying stocks, most of it now sits in cash while they decide whether they should buy a home. “Unlike most other people who met in their 20s and bought houses at more reasonable prices, we have been watching the market for three years now and feel we’ll never be able to catch up,” Jonas frets. “We are concerned that with super-high prices now in Vancouver, this might be the wrong time to buy.”

The couple figures buying a modest house for $850,000 would leave them with a $535,000 mortgage. Amortized over 25 years at 4.5% this would cost them about $2,900 to carry monthly—or $34,800 annually. Property taxes and other household expenses would add $15,000 to that annual outlay. They fear they will have little left over to put towards investments. “Honestly, that scares me,” says Jonas, who values flexibility. “I don’t want to appear paranoid but I don’t feel totally comfortable with the idea of putting all our eggs into the real estate basket. Even though I know the long-held wisdom is that home ownership is a great investment, I’m not 100% sold on the idea that it’s for us—even if we do get a $100,000 gift if we buy.”

The good news is that even if Jonas sells his business, he will be able to stay on at a salary of $140,000—a salary he figures he’ll be hard-pressed to duplicate if he finds another job in the tech or financial services sector. “If I left I’d probably make only $110,000 or so,” says Jonas. “Then we’d be able to save just $40,000 annually, after taxes and expenses. I don’t know if that would be enough to give us a really comfortable retirement.”

While Anika and Jonas both plan to work until at least age 60, they’d like to spend much of their retirement pursuing travel and hobbies on a full-time basis. “We’d probably qualify for full CPP and OAS if we start collecting at age 65, but our investments would have to provide the rest,” says Anika. “Travel is expensive so we figure we’d need $65,000 net annually for at least the first 10 years to live the retirement we want. That’s a lot.”

That means most of the couple’s retirement income will have to come from their investments. “Anika has just started investing in the couch potato and I dabble in dividend-paying stocks," Jonas says. "We're confident investing on our own. We just need a clear long-term plan to make our retirement dream come true. We hope we haven't started too late."

**What the experts say**

Jonas and Anika Finn are in a win-win situation. "Even with their lavish lifestyle, they have $57,000 left over annually to invest," says Heather Franklin, a fee-only adviser in Toronto. "That's a lot—whichever scenario they choose. Their problem is really about making a financial choice that will suit their future lifestyle. That can be difficult, given the emotional pull of family and the extra $100,000."

**WHERE THEY STAND**

**ASSETS**

| | |
|---|---|
| Jonas's RRSP | $58,082 |
| Anika's RRSP | $32,855 |
| Jonas's TFSA | $21,770 |
| Anika's TFSA | $24,136 |
| Stocks and bonds | $2,076 |
| Savings account | $14,929 |
| Jonas's 10% share in company | $125,000 |
| Vehicles | $31,500 |
| **Total Assets** | **$310,348** |
| **NET WORTH** | **$310,348** |

Annie Kvick, a money coach with Money Coaches Canada in North Vancouver, agrees. "Renting versus owning is one of the most often-asked questions in financial planning," says Kvick. "There is no one right answer. The Finns need to pick the path that will give them the flexibility and long-term financial well-being they crave." Here are the pros and cons of both options.

Scenario 1: Buying a home. Home ownership is not "a slam-dunk," says Franklin. "In fact, from 1990 to 2000, housing was a bad investment, returning 0% throughout the decade. The Finns need to be aware of that." And the truth is $850,000 won't get the Finns much of a house in Vancouver's pricey market. "They have to go to $950,000 to get a place their in-laws will be happy to live in," says Franklin. "That means a mortgage closer to $635,000. That's huge."

Even so, Kvick believes the couple would do fine financially if they bought a house—provided house prices keep rising at an annual rate of 4% and mortgage rates stay under 6%. "What this scenario has going for it is the $100,000 gift from Anika's parents, reliable tenants in the basement and tax-free capital gains on a principal residence when they sell," says Kvick. "Those are huge pluses."

Even if rates go up, Kvick feels the couple has enough in excess spending (Starbucks, restaurants, travel, etc.) that they can cut back prudently for a few years. For instance, on a $635,000 mortgage at 4.5% amortized over 25 years and paid biweekly, the Finns would have total annual mortgage payments of about $42,000. Rental income from the basement would cover $18,000, leaving the couple with $24,000 to pay annually on their own. At present they pay $22,000 a year in rent. "With property taxes and other expenses, it will cost them only about $15,000 more each year to own rather than rent," says Kvick. "That will give the Finns a paid-off home in 25 years."

The couple could then invest their remaining disposable income—about $40,000 annually if Jonas stays at his present job and salary. “They can expect an annual return of about 5% with a portfolio split of 60% equities and 40% fixed-income investments,” Kvick says. “Then they can retire at age 65 with $1.5 million, as well as have a paid-off house.” If Jonas leaves his job and earns less, and they only invested $20,000 annually in RRSPs and TFSAs, that would still allow them to retire at 65 with a more modest $800,000 investment portfolio and a home owned free and clear. They’d also have $18,000 a year in rental payments from their basement apartment. The catch? They have to be happy living with their in-laws for several years. “If they don’t mind that, this option will work beautifully,” Kvick says.

Scenario 2: Lifelong flexibility through investing. The second scenario offers the Finns maximum flexibility and a comfortable retirement when Jonas is 60 and Anika is 58. Franklin believes the best option for their lifestyle is to invest the $57,000 they have in excess income in low-fee exchange-traded funds, dividend-paying stocks and a few growth stocks, and forget about home ownership. “They spend so much at Starbucks and Whole Foods that they would do well to add some of these stocks to their portfolio,” Franklin says.

Given their ages, Franklin figures the Finns can split their equity portfolio into 60% blue-chip, dividend-paying stocks, 10% growth stocks (but not technology) and 30% fixed income. “They should max out their RRSPs and TFSAs with ETFs and stocks. Any leftover savings should be put into a non-registered investment account.”

If they do this they will have close to $2 million in investments by the time Jonas reaches age 60—or about $1.5 million if he accepts a lower-paying job and the couple is able to invest only $37,000 a year (net after taxes and other expenses). “With close to full CPP and OAS at age 65, the couple will have enough money to easily give them the $65,000 net annually that they crave, in order to travel and lead an adventure-filled life—even if they retire at 60 or so.” For Franklin, this option is closer to the spirit of what the Finns really desire. Now it’s up to the Finns to make the final choice.