

# No longer in debt, woman set to grow her savings despite a late start

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Special to The Globe and Mail

Published Friday, Feb. 06 2015, 7:36 PM EST

Esther's story is an inspiration to people with middling incomes dogged by debt.

"I received zero financial guidance growing up, and even less while in school," Esther writes in an e-mail. "I spent most of my younger years travelling the world, never really paying that much attention to my financial life along the way," she adds.

"It wasn't until about five years ago, deep in debt and sick of having every paycheque going straight to bills that I knew I had to become proactive and try to figure this stuff out," Esther writes. "I was living a frustrating, hamster-on-the-wheel existence, stuck in a hole I felt I could never dig myself out of."

She began reading about personal finance. "Over time the lessons finally started to sink in," Esther says. "So here I am today, feeling like I understand the basic, common-sense principles of personal finance, but also quite behind where I should be at this point in my life." She is 45 and single with no dependants. She has paid off all of her debts and is finally able to start saving and investing.

"What I envision for my future is continuing to sock away as much money as I can until I retire at 65 then moving to a much cheaper country to live, perhaps Thailand or Panama," Esther writes. "Am I doing the best I can with the limited funds I have, or is there something else I could be doing better to help my money grow?" Her retirement spending goal is \$40,000 a year after tax.

We asked [Kathryn Mandelcorn, a money coach with fee-for-service Money Coaches Canada](#), to look at Esther's situation.

## What the expert says

If Esther works until 65 and continues to save \$625 a month in her tax-free savings account and \$300 a month in her registered retirement savings plan (plus her employer's RRSP contribution of \$187.50 a month), she can expect a retirement income of about \$26,000 a year after tax in today's dollars, substantially less than she was hoping for, Ms. Mandelcorn says. This assumes a rate of return of 6 per cent a year and an inflation rate of 3 per cent.

Canada Pension Plan benefits will account for \$7,320 of her retirement income with the rest coming from savings. At 67, when she begins collecting Old Age Security benefits, she will draw less heavily on her savings.

Ms. Mandelcorn suggests Esther do some research on the country she wishes to move to and think about what she wants to do in retirement. “Consider travel and health-care costs as well,” the planner says. The purchasing power of the Canadian dollar 20 years hence will also play a role.

If Esther leaves Canada permanently, she could face tax implications on departure, Ms. Mandelcorn says. “Also, if she still receives certain types of Canadian income after she leaves, there could be withholding tax on the income.” She may also need to file tax returns even after she has moved. If Esther remains a resident of Canada for tax purposes, then the tax implications may be slight to none. Ms. Mandelcorn recommends Esther consult an accountant to get a better sense of her options.

Esther is concerned about the low interest rate she is earning on her guaranteed investment certificate ladder. As the GICs mature, Esther could switch to an index fund that is in line with her risk tolerance, Ms. Mandelcorn says.

Esther has an extra \$360 a month that is not allocated to any particular spending or saving goal, Ms. Mandelcorn notes. She recommends Esther dip into this to increase her TFSA contribution by \$85 a month to cover the purchase of a replacement car in five years. Esther could allocate another \$50 a month to travel to help her realize her goal of visiting Thailand in a year or so.

“This still leaves her with \$225 a month that she can either spend, save to travel or save toward retirement.”

Esther should keep her emergency fund in cash or a cash equivalent so that it will be readily available if needed. She may have a 90-day waiting period on her disability insurance policy and this reserve would cover her basic needs if she was unable to work.

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**Client situation:**

**The person:** Esther, 45.

**The problem:** Is she doing all she can to save for retirement with the money she has?

**The plan:** Do some research to get a better handle on what retiring to a foreign country might cost, taking into account travel and health-care expenses. Consult an accountant about the tax implications.

**The payoff:** A better understanding of her choices.

**Monthly net income:** \$3,340

**Assets:** GICs \$2,500; emergency fund \$10,000; TFSA \$1,000; RRSP \$28,000.  
Total: \$41,500

**Monthly disbursements:** Rent \$780; transportation \$185; grocery store \$400; vacation, travel \$200; discretionary (clothes, haircuts, entertainment, gifts) \$300; dining, drinks \$100; club membership \$40; cellphone \$50; RRSPs \$300; TFSA \$625. Total: \$2,980 Surplus: \$360

**Liabilities:** None.