FP Answers: We want to retire in 10 years with a target net income of $60,000. Can we do it?

This couple has three kids, only one full-time salary and a few solid investments

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A couple with only one income want to retire in 10 years with $60,000 a year in income. PHOTO BY CHLOE CUSHMAN/NATIONAL POST ILLUSTRATION FILES

Article content

FP Answers puts your investing questions to the experts. This week our expert is Janet Gray, a fee-for-service certified financial planner and money coach. Whatever your investment question, ask us, because FP Answers.

Q: We are a one-income household with three kids. I am 49 years old and a stay-at-home mom to two kids, aged 13 and 10. I work part-time off and on, but am not employed at the moment. Our oldest son, Jacob, is 20 years old, attends university in Hamilton and lives on his own. My husband, Ron, is 50 and works full time with a salary of $100,000 annually. We'd like to retire in 10 years with a target annual income of $60,000 net per year.

Our assets include a paid-off home valued at $800,000 as well as a $400,000 condo, which is also paid off and now being lived in by Jacob as he attends university. Ron has $450,000 invested in a registered retirement savings plan (RRSP) and $80,000 in a tax-free savings account (TFSA) with average net returns of about three per cent annually. We also have $90,000 in a non-registered account. We have no debt or other liabilities, and Ron does have a small company pension that will pay about $22,000 annually starting at age 60. Ron will qualify for full Canada Pension Plan (CPP) benefits, but I will have a smaller amount. Do we have enough to

retire in 10 years, and, If not, what changes can we make right now to meet our goal? Thanks for your help.
— *Connie*

FP Answers: Hi Connie. The short answer to your question is yes, you do have enough money and you are on track to have $60,000 income in retirement at age 60. Assuming you are spending all your income now with no additional savings, and based on the assets and investments you have accumulated already, you can spend $60,000 after tax annually until age 95.

A few assumptions were made in the calculations including: no bridge pension benefit on Ron's pension, your CPP estimated amount at $400 monthly starting at age 60, and Ron's CPP at age 60, which would be 36 per cent less than the 100-per-cent maximum he'd get if he started collecting it at age 65.

Also, consider that if you decide to sell the condo at age 60, your net income could be closer to $70,000 annually. But keep in mind that the capital gains tax owing on the condo sale couldn't be calculated since a cost base was not given. A better scenario (along with selling the condo at age 60) is for both of you to wait until age 65 to take your CPP and receive a higher benefit than you would at age 60. The CPP amount is guaranteed for life and is indexed to protect against inflation. Choosing to retire five years later at age 65 would provide closer to $73,000 in annual income to age 95 — a nice option to consider.

Remember, your principal residence will still be in your final estate, or it can be used as equity at an earlier point. CPP benefits for you, Connie, the family's primary caregiver, include a "child rearing" provision. If you are deemed eligible, the child-rearing period of seven years will be excluded from the contributory period when calculating your CPP benefit amount, ensuring that you get the highest possible payment.

I suggest you contact Service Canada (1-800-277-9914) and ask them for a benefit estimate including the child rearing provision. To access information about your personal CPP account, you will need to provide your social insurance number and, possibly, other personal information.

Other decisions may be made before retirement. For example, you and your husband may decide to keep the condo and use the net rental income to supplement your retirement income, and then sell the condo at a later date.

You have also not indicated if your two younger kids have sufficient education savings or that you have adequate emergency savings set aside. If the situation presents itself that you need to use any of your investment savings in the shorter term, this will change the longer-term retirement projections.

In that case, I suggest you estimate your future retirement spending and divide costs into necessities (food, shelter) and wants (travel, activities, etc.). Try to ensure your guaranteed retirement income sources (pension, CPP and Old Age Security) will cover most/all of your necessities. Then, use your savings to manage the gap (if any) and to use as the wants arise.

To shore up your defences for what you already have, consider life insurance while you still have younger children. It's preferable to not use your retirement savings until retirement. Also, put wills and power of attorney (POA) agreements in place now and periodically review them.

With 10 years to go until planned retirement, continue to monitor how your investments are doing, and review both your progress and your goals. Best wishes for your successful retirement.

Janet Gray, is a fee-for-service certified financial planner and money coach in Ottawa.