

# Why Cyril, 65, and Dina, 59, must downsize to make the most of their retirement

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Cyril is 65 years old and earns \$76,000 a year working for a municipal government. A year or so ago he married and moved to the city, where his wife Dina, who is 59, earns \$41,500 a year working in health care.

The move meant Cyril has to drive farther to work two or three days a week, so he's thinking about hanging up his hat and retiring.

When he retires, Cyril will be entitled to a municipal employees' defined benefit pension of about \$28,000 a year, indexed to inflation. Dina does not have a work pension.

They have a house worth \$1.5-million, with a mortgage of about \$400,000.

"I would like to see both of us able to retire sooner rather than later, given the stresses of our respective work," Cyril writes. "But we also do not want to add new stress to our lives because we haven't sufficient income to enjoy our hard-earned retirement."

Their retirement spending goal is \$80,000 a year after tax.

"A sense of security is important to us," Cyril writes. "Is our retirement goal robust enough and able to withstand shocks and chaos like



we've seen at different times in the past 25 years?"

We asked Ian Calvert, principal and head of wealth planning at HighView Financial Group in Oakville, Ont., to look at Cyril and Dina's situation.

## WHAT THE EXPERT SAYS

For Cyril, slowing down and looking after his family is now his primary focus, Mr. Calvert notes.

Cyril and Dina have an asset base of about \$1,786,000 and liabilities of \$426,000, for net worth of \$1,360,000.

Their house is valued at \$1.5-million but is about 84 per cent of their assets. This does not include the estimated commuted value of Cyril's pension of \$675,000.

"Their primary residence has undoubtedly been a good investment," the planner says. "However, \$286,000 of liquid retirement assets (\$1,786,000 minus \$1,500,000) is a modest amount that will take careful planning to manage."

In preparing his forecast, Mr. Calvert assumes both Cyril and Dina retire by the end of 2026.

Cyril and Dina have two positive aspects to their retirement plan. First, Cyril has a defined benefit pension that will provide indexed retirement cash flow starting around \$28,000 a year. "This pension is unquestionably the cornerstone of their retirement income."

Second, in 2029 they plan to sell their house, reduce most if not all of their liabilities, and cut their total expenses. "The downsizing event is a must-do to make this retirement plan function efficiently," Mr. Calvert says. Carrying the debt and the payments into retirement would be too big a component of their monthly cash flow.

Cyril is planning to defer his government benefits to age 70. To fund his cash flow at retirement, he is short about \$31,000 a year.

If Cyril uses the assets in his registered retirement savings plan (RRSP) between age 65 and 70, and delays his government benefits to age 70, he would essentially deplete the RRSP account over the five years, the planner says.

"This strategy has some pros and cons to consider." The major benefit is the amount and stability of his income starting at age 70. From his work pension, Canada Pension Plan and Old Age Security benefits, Cyril would have reliable, consistent and inflation-protected income for the rest of his life from three different sources. "His personal portfolio and market risk would essentially be gone as all risks would be shifted to the pension providers," Mr. Calvert says.

By deferring his benefits to age 70, his CPP retirement benefit would be 42 per cent higher and his OAS would be 36 per cent higher.

By depleting his RRSP or registered retirement income fund (RRIF), Cyril will have a tax-efficient net worth and no negative tax consequences of his RRIF being taxable on the final tax return of the surviving spouse.

"The downside to this strategy, at least in Cyril's case, is the lack of liquidity he will have," the planner says. "He would have three different sources of indexed retirement income, but little to no cash reserves."

To deal with a large and unexpected expense, they could draw on their \$105,000 line of credit or Dina's tax-free savings account (TFSA). "The downside of this plan is it would reduce their assets quickly before age 70."

By deferring government benefits, Cyril will have protected and enhanced his cash flow throughout the entire time period after age 70, the planner says. At age 70, Cyril would have his pension of \$30,000 a year, CPP of \$18,500 and OAS of \$12,000 for total income of \$60,500 a year, indexed to inflation.

His after-tax income would be slightly lower than his target, but they should be able to reduce their expenses through the sale of their property.

In 2029 they are planning to downsize from their current detached house. They are hoping to sell for about \$1.5-million and purchase a nearby townhouse for about \$1.1-million. Upon selling, they should pay off their Canada Greener Homes Loan (CGHL) and any remaining car loans they have at that time.

"This will reduce and simplify their cash flow needs for debt service, house maintenance and property tax," the planner says. After real estate commission, they should net about \$320,000.

They will have a couple options to consider, Mr. Calvert says. They could use the net proceeds to substantially reduce their remaining mortgage, which is about \$395,000. "Eliminating this debt and freeing up their cash flow would be a positive boost to their financial situation, particularly at their age," Mr. Calvert says. "However, liquidity and access to cash will be a constant challenge throughout their retirement."

Depending on a few factors, future mortgage rates being a major one, they may want to consider paying a little less on their mortgage and instead increasing their cash reserves.

Dina has about \$140,000 saved in her TFSA, from which she hopes to draw \$10,000 a year. It will be depleted by age 90.

She anticipates the TFSA drawdown, plus her CPP and OAS, would generate about \$21,000 a year. Adding that to Cyril's income would take them to their retirement spending goal of \$80,000 a year after tax.

"As long as they sell or downsize their townhouse before Dina turns 90, they should have enough income for the later stages of their retirement," Mr. Calvert says.

## **CLIENT SITUATION**

**The person:** Cyril, 65, and Dina, 59.

**The problem:** When can they afford to retire and safely meet their retirement spending goal?

**The plan:** Weigh the alternatives. Deferring government benefits to age 70 would give them a secure income but not much wiggle room for unexpected expenses.

**The payoff:** A better idea of when they can afford to retire and how much they can spend.

**Monthly after-tax income:** \$10,315.

**Assets:** Cash \$7,000; her TFSA \$139,530; his RRSP \$138,755; residence \$1,500,000. Total: \$1,785,285.

**Estimated commuted value of Cyril's pension plan (provided by applicant):** \$675,000. That's what someone with no pension would have to save to generate the same income.

**Monthly outlays:** Mortgage \$2,205; property tax \$585; water, sewer, garbage \$62; home insurance \$84; electricity \$150; heating \$55; maintenance \$245; garden \$60; car insurance \$270; fuel \$630; other vehicle \$325; groceries \$800; clothing \$50; Costco membership, miscellaneous retail \$65; car loan \$515; CGHL \$250; gifts, charity \$375; credit card fees \$60; personal care \$70; dining, entertainment \$250; pets \$85; subscriptions \$35; health care \$100; phones, TV, internet \$185; RRSP \$395; TFSAs \$835; pension plan contributions \$590. Total: \$9,331.

**Liabilities:** Mortgage \$394,780 at 4.9 per cent; CGHL \$25,915 at zero interest; car loan \$5,690 at zero interest. Total: \$426,385.

*Ian Calvert is a Principal, Head of Wealth Planning at [HighView](#).*