

With a \$1.3-million inheritance coming, can Ennis, 61, and Kara, 54, retire soon?

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Darren is 72 years old and retired with a Ennis and Kara are planning to retire soon, leaving behind joint family income of more than \$340,000 a year. Ennis is 61 years old and earns \$220,000 a year in senior management. His wife, Kara, is 54 and earns \$120,000 in research.

Both have defined-benefit pensions. Ennis's will be \$27,960 a year, while Kara's will pay \$9,000 a year. Both pensions are only partly indexed to inflation, his 50 per cent, hers 60 per cent.

"We've received no shortage of advice on how to prepare for this transition, but are interested in getting an experienced, objective view on whether we can retire on our timeline or are being overly optimistic," Ennis writes in an e-mail.

Both anticipate receiving inheritances at some point.

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Their goals are to travel and help their three young adult children buy first homes when the family cottage is sold. Their share will be about \$150,000.



Two of their children are still living at home.

The couple's home in an Ontario city is valued at \$1.1-million, and has a \$300,000 mortgage. Their retirement spending goal is \$135,000 a year after tax.

We asked Ian Calvert, a certified financial planner and head of wealth planning at HighView Financial in Oakville, Ont., to look at Ennis's and Kara's situation.

WHAT THE EXPERT SAYS

Ennis and Kara have a net worth of about \$2.18-million, Mr. Calvert says.

"They have a healthy asset base, and their pensions are a strong component of their retirement plan," he notes. "However, without any non-registered assets or tax-free savings accounts (TFSAs), all of their withdrawals in retirement will be treated as taxable income, with the exception of their cash savings."

To fund their cash flow requirements, they will need to withdraw about \$129,000 a year from their combined RRSPs and locked-in retirement accounts, or LIRAs, the planner says.

"Before they start consistent withdrawals from these accounts, they should consider converting their RRSPs to registered retirement income funds (RRIFs) and unlock 50 per cent of their LIRAs," Mr. Calvert says.

The unlocking of retirement assets adds more flexibility: They are moving assets out of LIRAs, which have annual withdrawal maximums, into RRSPs, which do not.

Moving assets from RRSPs to RRIFs makes sense because they are entering their withdrawal phase and need consistent income from these accounts.

"It's important to remember that the 50 per cent unlocking is a one-time option that should be completed at age 55 or older when you are completing the transfer from a LIRA to a life income fund (LIF) and starting to withdraw."

The couple's \$129,000 withdrawal, plus combined pension income of \$37,000 a year, will give them a total family income of \$166,000 a year, less \$31,000 in income taxes. This will meet their after-tax spending target of \$135,000.

"The required annual withdrawals from their retirement savings represent about 10 per cent of their portfolio," the planner notes. "It would be challenging to maintain their capital at this withdrawal rate, and they should expect a decline in capital over time."

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Fortunately, they have two items that will reduce the withdrawal rate. "First, they are expecting a combined inheritance of about \$1.3-million in the next few years," Mr. Calvert says. "Second, they will both be getting Canada Pension Plan and Old Age Security benefits."

When their inheritance comes through, they should use part of it to fund their TFSAs to the maximum available limit at the time, Mr. Calvert says. Currently, the lifetime maximum TFSA contribution is \$109,000 each, increasing by \$7,000 each year.

This will leave a substantial amount to be invested in their non-registered portfolio.

"Investing the remaining non-registered funds to generate steady and reliable income would be beneficial for a couple of reasons," the planner says. With \$1-million or so to invest, "they should build a portfolio structure that not only will participate in growth, but will

generate a consistent dividend yield of about 3.5 per cent, or \$35,000 a year."

The inheritance money will give them much more flexibility, the planner says. They will have funds they can access without adding to their taxable income. However, the new investment income from the funds they can't shelter in their TFSAs will be reported and taxed every year.

"Once their inheritance is received, they could withdraw \$35,000 per year from the non-registered portfolio and reduce the withdrawals from their RRSPs and LIRAs to about \$89,000 a year. This, combined with their pension income of about \$38,000 (with inflation), would bring their total income to about \$162,000 year while reducing their taxes to \$27,000 per year, he says.

At this rate of withdrawal, and assuming they can earn 5 per cent per year in capital gains, dividends and interest, their capital should be preserved, Mr. Calvert says. This is before including their government benefits, so they could increase their spending or give advance inheritances to their children if they wanted to.

When to take CPP and OAS will depend on the timing and amount of their expected inheritance, the planner says. Without the inheritance, starting their benefits at age 65 would help reduce the annual withdrawals from their portfolio, the planner says.

"If the inheritance arrives soon, delaying CPP would make sense because they would receive a larger guaranteed lifetime benefit and use the inheritance for spending in the short term."

Because of the seven-year difference in their ages, Ennis and Kara have time to think about when to take benefits. "They could take a hybrid approach," the planner says. "For instance, if no inheritance was received by 2029 when Ennis turns 65, they could start his CPP and OAS payments to reduce the withdrawals from their savings," he says. "They would still have lots of time to make the decision for Kara because she won't turn 65 until 2037."

They also ask about helping their children. "The challenge in their current position is they

don't have the after-tax capital to do it today," Mr. Calvert says. "Large withdrawals from their RRSPs would not be tax-efficient and would further hasten the decline in their capital," he says. "Their only other option is to pull equity from their house, which would come with additional debt servicing."

CLIENT SITUATION

(Income, expenses, assets and liabilities provided by applicants.)

The person: Ennis, 61, Kara, 54, and their three children, 20, 24 and 26.

The problem: Can they afford to retire soon and still meet their retirement spending goal?

The plan: A lot depends on the anticipated inheritance. They'd be drawing heavily on their registered savings in the early years. Ennis could start his government benefits at 65 to keep the withdrawals to a minimum.

The payoff: A solid understanding of their choices.

Monthly after-tax income: \$19,000.

Assets: Cash \$40,000; his RRSPs \$48,000; his locked-in retirement account \$620,000; her spousal RRSP \$413,000; her locked-in retirement account \$109,000; residence \$1,100,000; share of cottage \$150,000. Total: \$2.5-million.

Estimated present value of his

pensions: \$483,000; estimated present value of her pension \$156,000. This is what someone with no pension would have to save to generate the same income.

Monthly outlays: Mortgage \$2,500; property tax \$425; home insurance \$300; electricity \$225; heating \$200; maintenance \$300; transportation \$725; groceries \$1,400; clothing \$150; gifts, charity \$400; vacation, travel \$900; other discretionary \$200; personal care \$250; club memberships \$400; dining out, entertainment \$600; golf \$200; pets \$200; sports, hobbies \$300; other personal \$1,000; health care \$100; life insurance \$250; cellphones \$250; other

communications \$150; his pension plan contribution \$1,015; her pension plan contribution \$795. Total: \$13,235. Surplus goes to savings account to pay down mortgage.

Liabilities: Mortgage \$300,000.

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