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Can Jake, 57, and Bonnie, 52, both retire in three years and still help their teenage children pay for university?

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Like many folks in their 50s who are financially comfortable, Jake and Bonnie are looking forward to retiring from work as soon as possible. He is 57 and will be leaving behind a sales job paying $225,000 (variable), while she is 52 and earning $125,000 a year in education. Ideally, they'd like to hang up their hats in three years.

Bonnie has a defined benefit pension plan that will pay her $66,000 a year starting at age 55. Jake has no company pension but he does have a good-sized registered retirement savings plan.

Aware that they have both likely achieved peak earnings, their goal is to "take advantage of their highest earning years to maximize savings and investments," Jake writes in an e-mail. They also want to help their two children, 13 and 16, pay for university.

Longer term, they want to spend "the worst of winter in warmer climates," Jake adds. Their retirement spending goal is $100,000 a year after tax. "Can we retire at 60 and 55 and enjoy the lifestyle we want while providing undergraduate education for our kids?" Jake asks. They have a mortgage remaining of about $100,000 at 3 per cent.

We asked Ian Calvert, vice-president and principal at HighView Financial Group in Toronto, to look at Jake and Bonnie's situation.

WHAT THE EXPERT SAYS

Jake and Bonnie have total assets of $2.2-million, not including the commuted value of Bonnie's pension, Mr. Calvert says. Of the total, $1.2-million is held in their principal residence, $90,000 in savings and non-registered investments, $700,000 in RRSPs, and $210,000 in tax-free savings accounts.

"The years before 2025 will be important to capitalize on their final and highest earning years before retirement," the planner says. Because Jake has no company pension, he should make maxing out his RRSP a top priority. That means a contribution of $29,210 for 2022, and the maximum amounts for 2023 and 2024.

Jake is expected to be in the 53.53 per cent marginal tax rate, so the maximum contributions will provide a healthy deduction on his final employment tax returns and give his retirement savings a meaningful lift before he transitions into his withdrawal phase, Mr. Calvert says. Because he is in the highest combined (federal and provincial) tax bracket, and in the years of highest disposable income, he should utilize any RRSP contribution room carried forward from previous years as current-year deductions, he says. This amount can be found on his most recent federal notice of assessment. Jake will be in a much lower tax rate once he retires so carrying the unused RRSP contribution room into retirement will likely have little benefit, the planner says – unless he has a year where his income spikes before the age of 71.

Bonnie is participating in a DB pension plan, accumulating pension benefits and creating a pension adjustment, so her contributions to her RRSP will be limited. "Still, she should use the available room, and both should continue to contribute the maximum to their TFSAs, which remains at $6,000 a year but is expected to rise to $6,500 in 2023.

Upon retirement, Bonnie's pension of $66,000 will commence. This still leaves a considerable gap to fund their after-tax spending target of $100,000. To make up the difference, they will need to consider when to take their government benefits (Canada Pension Plan and Old Age Security) and when to withdraw from their portfolio – and from which accounts, Mr. Calvert says.

"As Jake's income will drop to only a couple thousand dollars of dividend income, he should undoubtedly and voluntarily start withdrawing taxable income from his portfolio starting in 2025," the planner says. "Leaving your total income this low and paying no tax should not be celebrated, but instead be seen an opportunity for more efficient planning."

To meet their required lifestyle needs, Jake should convert his RRSP to a registered retirement income fund and withdraw $64,000 a year, Mr. Calvert says. Bonnie should also withdraw but limit her withdrawal to $18,000 annually. With the addition of Bonnie's pension, and some other dividend income, their expected taxable income would be $75,000 each after income splitting Bonnie's pension. "That $150,000 of total income, less $18,000 in mortgage payments and $29,000 in taxes, will provide them with their required after-tax cash flow," the planner says.

"Although this withdrawal strategy works well from a tax perspective, the withdrawal rate and total withdrawal of $82,000 is not a sustainable option for the long run," Mr. Calvert says. Thankfully, two factors will improve this expected withdrawal rate from the portfolio. First, their mortgage will be paid off in 2027, eliminating $18,000 in after-tax expenses. Second, they have yet to receive their government benefits. Jake and Bonnie have enough assets that they need not take CPP and OAS early at a reduced rate. However, they also shouldn't delay to age 70 as these are a valuable pillar of their retirement plan, he says.

"Taking both CPP and OAS at age 65 will be an ideal option as it will reduce the withdrawal pressure from their retirement savings. Once Jake turns 65, the expected withdrawals (combined) would be close to $45,000 or about 4 per cent of their asset base in 2030. This would be reduced again in 2035 when Bonnie turns 65 and begins collecting government benefits. "Keeping the withdrawal rate from the portfolio at 5 per cent or below adds a tremendous amount of certainty to their retirement plan and the longevity of their assets," Mr. Calvert says.

With an early retirement date, especially for Bonnie, it's highly unlikely that either will receive the maximum CPP benefit, he says. "Knowing and confirming the actual figures can help with retirement cash flow planning and avoid surprises when applying for the retirement benefits."

At this expected rate of withdrawal, and if Jake and Bonnie can achieve an average annualized rate of return of 5 per cent on their investable assets, their RRIFs would be exhausted in 2056 when Jake is 91 and Bonnie is 86, Mr. Calvert says. They would still have a healthy balance sheet of about $4-million, of which real estate is projected to be $2.3-million and investable assets held in their TFSAs and non-registered portfolio the remainder.

Jake and Bonnie also ask about funding their undergraduate education for their two children. "They have done a great job of building a registered education savings plan worth $90,000, but they now need to consider a withdrawal strategy from the account," the planner says. An effective strategy is balancing the taxable components, which include the income/growth and federal government grants, evenly each year for both beneficiaries, he says. This is taxable income in the hands of the beneficiary. "You want to avoid a situation where the taxable income from the RESP has been ignored, leaving the student with large taxable withdrawals in the final year of school."

CLIENT SITUATION

The people: Jake, 57, Bonnie, 52, and their two children, 13 and 16

The problem: Can they afford to retire in three years with $100,000 a year in spending and help their children with their higher education?

The plan: Retire as planned, convert RRSPs to RRIFs and withdraw enough to make up the substantial shortfall. The withdrawal rate will fall when they begin collecting government benefits.

The payoff: All goals achieved.

Monthly net income: $19,000

Assets: Cash $15,000; stocks $75,000; his TFSA $125,000; her TFSA $85,000; his RRSP $600,000; her RRSP $100,000; registered education savings plan $90,000; estimated present value of her DB pension $700,000; residence $1.2-million. Total: $2.99-million

Monthly outlays: Mortgage $1,500; property tax $500; water, sewer, garbage $150; home insurance $140; electricity, heating $260; security $15; maintenance $500; transportation $390; groceries $800; clothing $100; charity $150; vacation, travel $1,000; dining, drinks, entertainment $450; personal care $50; club memberships $200; golf $100; pets $100; sports, hobbies $250; health care is covered by employers; communications $280; RRSPs $500; RESP $250; TFSAs $250. Total: $7,935

Liabilities: Mortgage $100,000 at 3 per cent

Ian Calvert is a Vice President & Principal at HighView Financial Group.