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How long can Larry and Bonnie keep their cottage after retirement?

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Larry is a skilled tradesman earning $110,000 a year. His wife, Bonnie, earns $15,000 a year working part-time for a local retailer. They are both age 65.

As well as about $600,000 in savings, Larry and Bonnie have a mortgage-free house and cottage in Ontario. They have three adult children, two of whom live at home.

Larry plans to retire in July, while Bonnie plans to keep working part-time until age 70.

They hope to keep both their house and cottage for at least another decade. "We expect we may have to hang on to them longer to use as a safety net for our kids who can't afford the cost of housing," Bonnie writes in an e-mail. They hope to help their children with education expenses, rent if needed, and "early gifting" as part of their inheritance.

Bonnie and Larry have managed their own investments and are looking to possibly convert all or a portion of their RRSPs into registered retirement income funds, or RRIFs, starting this year, Bonnie writes.

After Larry leaves the work force they plan to spend summers at the cottage and winters snowmobiling or skiing in British Columbia, she adds.

"Should we consider delaying Larry's Canada Pension Plan and Old Age Security benefits and instead withdraw larger amounts from our

RRIF between age 65 and 70?" Bonnie Asks. Their retirement spending goal is $65,000 a year.

We asked Ian Calvert, a certified financial planner and principal at HighView Financial Group, to look at Larry and Bonnie's situation.

WHAT THE EXPERT SAYS

With Larry accounting for 88 per cent of the total family income, the couple require a retirement plan that focuses on three major items, Mr. Calvert says – the longevity and taxation of current investable assets, their government benefits and when to sell their cottage.

Larry and Bonnie have a net worth of about $2,183,000, including a principal residence valued at $950,000 and a cottage worth $600,000. As for investments and savings, they have $505,000 combined in RRSPs, $100,000 in combined tax-free savings accounts and $28,000 in cash.

"No debt or liabilities is certainly an advantage heading into retirement," the planner says. But having only 29 per cent of their net worth held in liquid assets will require careful management and a strict budget until they liquidate a property," Mr. Calvert says.

Larry and Bonnie have a spending target of $65,000 a year after tax. Bonnie plans to start taking CPP and OAS benefits this year, with CPP of $5,723 and OAS of $8,740. If Larry decides to take both his Canada Pension Plan and Old Age Security benefits in 2025, when he turns 66, he will need to withdraw about $14,000 a year from his RRSP/RRIF assets.

Larry would have a combined income of $40,843 ($14,000 RRIF, $17,631 CPP, $9,212 OAS).

"This would pair well with Bonnie's government benefits of $14,463 a year and part-time income of $15,000 a year," the planner says.

In all, they would have a family income of $70,306 a year, less $3,600 for income tax. By taking CPP and OAS next year, Larry will get an increase to the amount he would have received at age 65 (plus 0.7 per cent for each month after 65 for CPP and an additional 0.6 per cent a month for OAS).

To balance the family budget, assuming Larry receives both CPP and OAS at age 66, he requires $14,000 from his retirement savings. "From a base of $330,000 in his RRSP today, this is a healthy and manageable withdrawal rate of 4.2 per cent," the planner says. "If invested correctly, he would have a high probability of maintaining his capital base for the first phase of his retirement."

Alternatively, Larry could decide to delay his CPP and OAS for another four years. Bonnie would still take her benefits at age 65. "If Larry elected to delay government benefits to age 70, he would certainly be rewarded with substantially higher payment from both his CPP and OAS," Mr. Calvert says. "However, the assets in his RRSP/RRIF would have to make up the shortfall between 2025 and 2029.

Without his CPP and OAS, he would require about $41,000 from his RRSP/RRIF until age 70. This would be a withdrawal rate of 12 per cent for a four-year period (66 to 70). "This accelerated withdrawal would lower his RRSP to about $225,000 by age 70," Mr. Calvert says.

"Although this is a drain on capital, they are planning to sell their cottage between ages 75 and 80, which could inject money with enhanced government benefits for the latter phase of their retirement plan," he says. Larry would have to be comfortable with seeing his RRSP/RRIF decline before the age of 70, and most importantly, they'd have to sell the cottage at age 75 or soon after. Between ages of 70 and 75, the enhanced CPP, which is 42 per cent higher, and OAS, which is 36 per cent higher, would dramatically reduce the withdrawals needed from the portfolio.

"This strategy of deferring both CPP and OAS would offer some material benefits for them," the planner says. Assume the cottage appreciates at an annualized rate of 3 per cent and they pay a capital gain and social benefit repayment (OAS clawback) totalling about $92,500. The OAS clawback is owing to the one-time spike in income from the reported gain from the cottage sale.

"Ideally, they put themselves in a scenario where the RRSP/RRIF is not a material asset in the long run," Mr. Calvert says. "They enhance their indexed government benefits for the remainder of their retirement years while injecting $650,000 of after-tax funds from the cottage sale." With proper management of the portfolio and expenses, and the cottage sale, delaying government benefits could certainly work out to be the superior option.

Once the sale of the cottage takes place, they should shelter as much as possible in their TFSAs as these tax-advantageous accounts are not being fully utilized, the planner says. As of Jan. 1, 2024, Larry and Bonnie can both contribute $95,000 and will have more room by the time they realize the proceeds from the cottage.

Once Bonnie's part time income stops at age 70, she should also start to take funds from her RRSP. If she converts her RRSP to a RRIF and takes the minimum withdrawal, it will be about $11,000 per year.

"If Larry and Bonnie follow this strategy, they should ideally find themselves in a good place for a tax-efficient transfer of wealth to their children," Mr. Calvert says. "If they have a principal residence, fully funded TFSAs, non-registered savings and smaller RRSP/RRIF accounts, their expected final taxes payable would be relatively low given the expected size of their estate.

The TFSAs have no tax consequences, and non-registered assets would only be subject to capital gains on growth.

"You want to avoid the scenario where your RRSP/RRIF is the largest asset on your balance

sheet later in life," the planner says, "because on the death of the second spouse, the RRIF account value is deemed to be withdrawn and taxed as income on your final tax return." Given the expected injection of capital from the cottage sale, and the expected amount to fund their lifestyle if they keep their retirement spending in check, they could consider starting to gift some of the cottage proceeds to their children relatively early, Mr. Calvert says. "Gifting early can be a solid strategy to support loved ones now, while simplifying the estate and ideally lowering taxes and probate fees."

CLIENT SITUATION

The people: Larry and Bonnie, both age 65, and their three adult children.

The problem: If Larry retires this year, should they take government benefits or defer them and draw on their RRSPs instead? When will they have to sell their cottage?

The plan: Weigh the pros and cons of deferring government benefits. It may be better in the long run to defer benefits to age 70 to take advantage of the substantially higher payments. They would run down their RRSPs/RRIFs but they would get a cash flow injection by selling the cottage.

The payoff: A comfortable lifestyle now and a more tax-efficient transfer of wealth to their children.

Monthly net income (2025 projected): $5,558

Assets: Cash $28,000; his TFSA $58,770; her TFSA $42,930; his RRSP $330,000; her RRSP $175,000; residence $950,000; cottage $600,000. Total: $2.2-million.

Monthly outlays: Housing $1,125; transportation $655; groceries, clothing $790; cottage operating $665; gifts $165; vacation, travel $625; dining, drinks, entertainment, club memberships, sports, hobbies, pets $960; health care $290; phones, TV, internet $350. Total: $5,625.

Liabilities: None.

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