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

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John retired early from his well-paying executive position last fall. "I earned a very good salary over the years and now enjoy a defined benefit pension plan as my primary source of income," John writes in an e-mail. He is entitled to $98,000 a year, indexed to inflation. His wife, Lindsay, still works part-time in health care a couple days a week, earning about $30,000 a year.

John is 62, Lindsay is 61. They have two children, 26 and 20, and a mortgage-free home and cottage in Atlantic Canada. They also have some land.

While they are comfortable financially, John is finding it "psychologically challenging" to be harvesting their wealth rather than building it, he writes. With that in mind, he is planning to "build a modest consulting practice that will generate gross income of over $50,000 a year," he writes.

After their younger child moves out, they are thinking of downsizing the family home and spending half the year at the cottage. They would either buy a condo with part of the proceeds or rent in the city. They also want to take two big trips a year.

John asks whether they will be able to achieve their financial goals without having to generate additional income. Their retirement spending goal is $100,000 a year after tax.

We asked Ian Calvert, a certified financial planner and principal of HighView Financial Group in Toronto, a portfolio management firm, to look at John and Lindsay's situation.

WHAT THE EXPERT SAYS

John and Lindsay have assets of $1,773,000, of which $1,060,000 is held in real estate and $713,000 in investable assets, Mr. Calvert says.

Last fall, John made the transition into full retirement. His wife Lindsay continues to be employed part-time because she enjoys the work and the flexibility of the job. Lindsay plans to continue to work until the end of 2025.

"The first and relatively simple step to achieving their after-tax spending target is to reduce the family's total income tax payable," Mr. Calvert says.

Because John has a defined benefit pension, he has the ability to split up to 50 per cent of his pension; it is considered eligible pension income. "This is different to funds withdrawn from a registered retirement income fund, where the account holder needs to be 65 or older," the planner says. The splitting of this pension income won't happen at the source. The full pension will be paid to John, and upon filing his tax return they will elect to split the income on paper. "The ideal amount would be $34,000 a year of his pension income," Mr. Calvert says. "This would put both of their incomes at $64,000 for the year."

John mentioned they have also dipped into their TFSAs when cash flow was short and unplanned expenses arose. "The TFSA is a great account for these moments, but they should also consider using the funds in the

RRSP," the planner says. It's common to avoid RRSP withdrawals, as this voluntarily puts taxable income on one's return, he says. However, for several reasons, the TFSA would be the superior option for long-term accumulation, in part because it would build more tax-free assets, either to be used at a later date or for a transition to the next generation. It really comes down to a household's level of taxable income today, and the capacity to report any additional taxable withdrawals from one's portfolio. With an estimated income of $64,000 a year, John and Lindsay have the capacity to do so. With the current combined tax brackets (federal and Nova Scotia), they should attempt to keep their incomes below $75,000 a year each. This would top up their current tax bracket of 37.7 per cent.

John is considering earning some consulting income in his retirement. He mentions that $50,000 would be a fair estimate. If John does proceed with this venture, it would result in a few changes to their retirement strategy, Mr. Calvert says. "Firstly, with the additional income, the early RRSP withdrawals would not be needed or beneficial from a tax perspective," he says. In this scenario, it would be a better strategy to wait on the RRSP withdrawals until the consulting income is finished. Secondly, the additional cash flow would add a healthy buffer to the family's retirement cash-flow plan. They could certainly consider increasing their lifestyle spending, building up their TFSAs or giving to charity.

Once Lindsay fully retires from her part-time work, they will still find themselves in a healthy position without relying heavily on their retirement savings, the planner says. For instance, in 2028, when Lindsay is 65, their family cash-flow plan would consist of: John's pension of $106,000 a year, indexed; combined Old Age Security of $18,400; and combined Canada Pension Plan benefits of $24,000. (Because Lindsay has worked part-time and had gaps in her employment, her CPP is estimated to be about half of the maximum retirement benefit, which currently stands at $16,375 a year.)

Under this scenario, they would have a total family income of $148,400 less $25,500 for taxes, leaving $122,900 a year for lifestyle expenses. If no additional income is required from the registered retirement portfolio, they should still continue to cycle funds from their RRSPs/RRIFs to their TFSAs.

John asks about renewing his term insurance. They have three policies that will be renewed in 2026 and 2030. Because these policies were taken out 20 years ago, the couple should expect a significant increase in the premiums if they decide to renew. At this stage in life, insurance for their loss-of-income risk is essentially eliminated. If they decided to renew, it would be for estate purposes and the transition of wealth to their children. "The future tax-free proceeds on the policy would need to justify the cost and the loss of liquidity during the payment period."

CLIENT SITUATION

The people: John, 62, Lindsay, 61, and their children 26 and 20.

The problem: Overcoming the fear of "harvesting wealth" instead of creating it. Will they have enough?

The plan: John splits pension income with Lindsay. When they both retire, they tap their RRSP/RRIF and LIRA/LIF savings first. But if John starts a consulting business, they put off withdrawing from their registered plans until he has fully retired.

The payoff: Assurance that they have more than enough money to meet their financial goals and more.

Monthly net income: $8,685.

Assets: Cash $10,000; his locked-in retirement account $51,000; her LIRA $168,000; his TFSA $30,000; her TFSA $68,000; his RRSP $230,000; her RRSP $166,000; estimated present value of his DB pension $2,000,000; residence $850,000; cottage $150,000; plot of land $60,000. Total $3.78-million.

Monthly outlays (three properties): Property tax $905; water, sewer, garbage $200; home insurance $335; electricity $380; heating $195; security $50; maintenance $250; garden $100; car insurance $230; fuel

$300; oil, maintenance $200; groceries $250; clothing $250; gifts $300; charity $500; vacation, travel $600; other discretionary $200; dining, drinks, entertainment $700; personal care $125; pets $100; sports, hobbies $100; subscriptions $50; doctors, dentists, drugstore $125; health, dental insurance $360; life insurance $230; cellphones $290; phone, TV, internet $100. Total: $7,420.

Liabilities: None.

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