

# With \$2.4-million and a portfolio of bank stocks, what should Jeremy, 71, do for an easy retirement?

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Jeremy is 71 years old and works as a security guard. He earns \$55,000 a year and wants to [retire](#) later this year.

He has no dependants, does not own real estate, and has no work pension. Jeremy rents a modest unit in what was once an affordable Toronto neighbourhood. As a result of his frugal lifestyle, he has accumulated \$2.4-million in [savings and investments](#).

In addition to his registered assets, Jeremy holds bank stocks in his taxable account. "I invested in the banks at the end of March, 2020, when interest rates were way down and COVID-19 tanked the markets," Jeremy writes in an e-mail. "I went with the banks because of their impeccable record of steady and growing dividends." His investments have done well "but I need advice on where to go from here."

He has converted his registered retirement savings plan (RRSP) to a registered retirement income fund (RRIF) and – because he turns 72 this year – must start drawing the minimum amount; his bank estimates his withdrawal will be more than \$59,000 a year.



Once he retires, "what drawdown sequence would be most advisable?" Jeremy asks. "What should I do with my cash reserves?" His long-term goals include outliving his savings and living a long, happy and secure life. His retirement spending goal is \$60,000 a year after tax.

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

## **WHAT THE EXPERT SAYS**

Jeremy has done an excellent job of saving and investing his surplus income over the years, Mr. Calvert says.

Jeremy will be transitioning into full retirement at the end of this year. His RRIF minimum withdrawal will be about \$60,000 a year. His Canada Pension Plan benefit, which he delayed to age 70, is \$22,100 a year, his Old Age Security \$8,600 and his life annuity payment \$11,940.

"Without having to draw on his cash or non-registered portfolio, Jeremy will have cash flow of \$102,640 a year," the planner says. This income, plus the dividends from his non-registered portfolio, will result in an estimated income tax owing of \$27,500 a year, including an OAS benefit repayment, or clawback, of about \$5,700. Because Jeremy's taxable income is expected to be around \$128,000 a year, he will lose most of his OAS benefit now and throughout retirement, Mr. Calvert says.

[With his health concerns, should Pablo, 59, take his pension as cash when he retires?](#)

Jeremy will be in a strong cash flow position given his modest expected lifestyle needs of \$60,000 a year, the planner says. "For instance, his minimum pretax RRIF withdrawals alone will start around \$60,000 a year and increase each year," the planner notes. "With no desire to leave a large estate and no dependants, Jeremy could certainly consider increasing his annual lifestyle spending well above his current target." Significantly increasing his lifestyle would not disrupt his retirement plan.

Jeremy's portfolio consists almost entirely of four Canadian bank stocks. "He went all in when the market sold off heavily in March of 2020 at the start of the COVID-19 pandemic," Mr. Calvert says. "This was an excellent entry point for many stocks, including the blue-chip Canadian financials."

However, Jeremy has a significant concentration risk and his portfolio lacks diversification, the planner says. "There can always be a shock to a particular sector." To mitigate this risk, Jeremy could gradually build a strong Canadian dividend stream from other sectors as well. "Other robust dividend sectors in Canada include energy, real estate, utilities, materials and communications," the planner says. "Jeremy could diversify his portfolio while maintaining a strong dividend yield of 3 per cent to 4 per cent annually of Canadian eligible dividends."

Because Jeremy has large unrealized capital gains, it would be advisable for him to trim his bank stock position over two or three calendar years to avoid a one-time spike in his taxable income," Mr. Calvert says.

#### [How can Ned, 70, avoid paying higher taxes when he moves from Calgary to Toronto?](#)

"If he did it all in one year, he could push himself into the 53.53 per cent marginal tax rate. This starts at income above \$253,414. As well, Jeremy is very attached to his stocks because he has done so well with them. A gradual sell-off could help with the behavioural side of the transition," the planner says.

Jeremy asks about the drawdown of his investments. With taxable income expected to be around \$128,000 a year, Jeremy could

consider the following approach: In the first few years of retirement, diversify his portfolio and realize the capital gains. Aiming for capital gains of \$50,000 per year, of which 50 per cent would be taxable, would be an ideal target, the planner says. This would bring his taxable income up to about \$150,000 a year, the top of the 43.41 per cent tax bracket.

"Once the portfolio has been adjusted and the capital gains are behind him, he could consider increasing his RRIF withdrawals by \$25,000 a year," the planner says. This would be all taxable income, maintaining his taxable income of \$150,000 per year.

"Jeremy shouldn't be concerned about the decline of his RRIF because he is maintaining and building his wealth in the right accounts – his TFSA and his non-registered portfolio – and his net worth is expected to continue to increase," the planner says. "By doing this, he is maintaining a desired tax rate while at the same time positioning his wealth in the right accounts." If Jeremy increased his total withdrawals to \$105,000 per year from his portfolio, \$80,000 from his RRIF and \$25,000 from his non-registered account, and achieved an average rate of return 5 per cent annually, his asset base would be \$2,770,000 by age 90, Mr. Calvert says. Jeremy's RRIF would decline but his non-registered portfolio and tax-free savings account would continue to grow in value.

#### [Is Preston, 39 and single, saving too much or too little to retire at age 58?](#)

Jeremy also asks whether it would make sense to purchase another annuity. An annuity is a financial product that provides a guaranteed income stream in exchange for a lump-sum payment. "You're essentially giving up your liquidity and access to your capital for guaranteed income for as long as you live," Mr. Calvert says.

The main benefit of an annuity is for individuals concerned about outliving their savings. "Given Jeremy's asset base, age and the high yield on his portfolio, this risk is extremely low," the planner says.

## **CLIENT SITUATION**

**The person:** Jeremy, 71.

**The problem:** What to do with all his money.

**The plan:** Sell some of his bank stocks to better diversify his holdings. Draw more heavily on the RRIF than the other accounts. Feel free to spend a little more.

**The payoff:** Financial stability.

**Monthly net income, all sources:** \$8,475..

**Assets:** Cash \$219,000; RRIF \$1,160,000; TFSA \$136,000; non-registered portfolio \$911,000. Total: \$2.4-million.

**Monthly outlays:** Rent \$1,000; electricity \$50; transportation \$210; groceries \$300; charity \$25; vacation, travel \$1,000; other discretionary \$200; sports, hobbies \$20; health care \$100; phone, internet \$95. Total: \$3,000.

**Liabilities:** None.

*Ian Calvert is a Vice President & Principal  
at [HighView Financial Group](#).*