How RBC helped James and Mary live the retirement they have always pictured

Mary has just found out her employer is relocating and has chosen to take an early retirement package. James wants to find out if he can retire as well, so they can spend time travelling together and start living the retirement they've always pictured.

– A fictional case study for illustrative purposes only

The Big Question

Mary is 59 years old, and after 35 years of working for the same company, has decided to take the offered severance package of $65,000 at the end of the year. James is a 61 year old business manager who has been with his current employer for eight years. He wasn't planning on retiring until 65, but would now like to retire to be with Mary.

What they need to know is if it's financially possible for both of them to retire at this point in their lives. So they've set up a meeting with Glenn, an RBC® advisor, who can help them plan out the next 20+ years of their retirement.

Their Financial Situation

After 37 years of marriage, they are mortgage free and plan on downsizing from their $600,000 home to a townhouse, resulting in $255,000 left over to help create more retirement income. Two years ago James' mother passed away and they used the inheritance to buy a condo in Florida. They also want to keep in mind their two daughters (aged 32 and 27, both married) and their two grandchildren. They would like to help out with the grandchildren's education plus have the flexibility to help Mary's aging parents.

Glenn begins asking questions about what they want to do in retirement. Like most couples who retire in their early 60's, retirement usually happens over three different phases.

Phase one is all about enjoying their newfound freedom. This means travelling to exotic places, spending winters in Florida and downsizing to a home with less upkeep.

Financial Planning

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In the second phase, they see themselves spending more time closer to home, with family and friends, especially their grandchildren.

The third phase is more about managing health and wellness. James and Mary can only go by how healthy they are now and look at their family history to try and figure out what they might need in terms of healthcare in the future. They want to plan ahead as they don't want to be a burden, financially or otherwise, on their family.

Mary & James' Financial Picture

	Resources that will generate retirement income	
Mary's Assets	Severance package	**$65,000**
	Defined Contribution Pension Plan (DC Plan)	**$108,000**
	TFSA	**$22,000**
James' Assets	TFSA	**$25,000**
	LIRA (Locked-in Retirement Account) from a previous employer	**$185,000**
	RRSP	**$145,000**
Mary and James' Assets	Net proceeds from downsizing to a townhouse	**$255,000**
	Total	**$805,000**

Glenn's Retirement Income Plan for James and Mary

After getting to know James and Mary, including the lifestyle they plan to have in retirement, Glenn tells them he wants to look at other ways to help make it financially possible for both of them to retire together. He establishes that they'll need an annual income of $45,000, after taxes, in order to cover their living and lifestyle expenses when they start their retirement. This will cover their basic living expenses of $33,000 and an additional $12,000 for their Florida home and their travel costs. He begins to put together a detailed Retirement Income Plan that will help them achieve this goal.

While not the case with Mary and James, Glenn mentions that he has worked with couples who took advantage of other options when they weren't able to meet their retirement income goals (such as working longer to build more retirement savings or working part-time to create another source of income).

1. Income from Mary's Severance Package

Glenn recommends that Mary's severance be used to top up her RRSP by taking advantage of unused contribution room. Any remaining money should ideally be transferred to her TFSA, provided there is room. Maximizing TFSA accounts annually ensures savings within these accounts grow tax sheltered and are withdrawn tax free. During retirement, a TFSA can provide greater flexibility in the event of unexpected expenses (such as healthcare costs) as withdrawals are non-taxable compared to RRSP withdrawals, which are fully taxable. This reduces the risk of moving into a higher marginal tax bracket.

2. Income from Government Sources

CPP/QPP – When considering the timing of CPP/QPP payments, Glenn explains that while benefits are designed to start at age 65, there is an option to start as early as age 60 with a reduced monthly payment or after age 65 with an increased monthly payment. Given James and Mary's need for cash flow, Glenn recommends that James take CPP/QPP now (as he is 61) and Mary start as soon as she turns 60. Mary's CPP/QPP payments are expected to be $416/month and James', $496/month. These will be in place for the rest of their lives and will be indexed for inflation. Glenn advises Mary and James that they should submit their application six months prior to the age CPP/QPP benefits are to start, in order to ensure they begin on time.

While not as applicable for Mary and James, Glenn mentions that some couples have a bigger difference in their CPP/QPP payments. With these couples, it may make sense to take advantage of the provision for sharing CPP/QPP benefits (credits earned while married) as it may help lower their overall tax bracket through income splitting.

Old Age Security (OAS) – James and Mary are not yet 65, but when they do reach 65, their retirement income plan will need to evolve to ensure their incomes do not negatively impact their tax situation. Possible tax impacts could include reducing or eliminating their allowed federal income and provincial age credit amounts. Glenn points out that each year James and Mary should evaluate the impact of income on the age tax credit and the potential for OAS to be clawed back (or reduced).

Mary and James' Initial Budget

Annual Retirement Income (pre-tax)	
Canada Pension Plan/Quebec Pension Plan – Mary	$4,992
Canada Pension Plan/Quebec Pension Plan – James	$5,952
LIF – Mary	$13,250
LIF – James	$13,250
Income and draw-down from net proceeds from sale of home	$12,750
Total income	**$50,194**
Annual Expenditures	
Income taxes (varies by province)	$5,194
Basic living expenses	$33,000
Florida home maintenance and travel costs	$12,000
Total expenditures	**$50,194**
After-tax surplus/deficit	**$0**

3. Income from Registered Investments and Other Assets

James' LIRA and Mary's DC Plan – Glenn advises James and Mary to move these into a Life Income Fund (LIF) in order to start withdrawals with an annual income stream of about $13,250 each. Depending on the province, there may be a one time opportunity to "unlock" up to half of these types of funds and transfer them to James' and Mary's individual RRSPs. Glenn recommends taking advantage of any unlocking provision as this will enable them to withdraw amounts from their RRSP.

RRSPs – In terms of withdrawals, at this stage, none are required as the proposed LIFs will provide the needed retirement income. Glenn points out that the benefit of tax-free compounding within the RRSP should not be overlooked, especially given the large amount of their total savings held within their RRSPs, and that other income is available to meet their retirement expenses. Glenn explains that by leaving the RRSP funds to grow on a tax-deferred basis until age 71, benefits are maximized. He advises that this should be reviewed on a yearly basis since it's possible for the RRSPs to be gradually wound down earlier, taking advantage of unused room within their tax bracket. Once they reach 71, funds will need to be transferred to a Registered Retirement Income Fund (RRIF), with minimum withdrawals required.

Proceeds from Sale of Home – James and Mary want to invest the $255,000 net proceeds they gain from downsizing. Glenn recommends this be invested with joint ownership using one of RBC's investment solutions designed to pay 5% or approximately $12,750 per year. Not only would this solution create a monthly payment, it would also help ensure efficient tax planning with a mix of interest, dividends, capital gains and return of capital, in addition to other features designed for tax efficiency. And, joint ownership based on equal contributions would allow them to split the investment income, an additional tax planning benefit.

Other Advice Glenn Has for Mary and James

Healthcare Costs – Since James' and Mary's employers don't provide medical and health benefits during retirement, it's important they purchase outside coverage as well as supplemental coverage for any visits to Florida. Glenn had already factored these costs into their annual living expenses when creating Mary and James' Retirement Income Plan.

Estate Planning – Estate planning was something that James and Mary had not thought about, but after this discussion with Glenn, they realize the importance of having updated Wills and Powers of Attorney, for here and Florida and for financial and medical purposes. Glenn also recommends they speak with a qualified cross-border tax accountant to better understand tax filing requirements resulting from the time they will spend in Florida.

Education for the Grandchildren – Glenn explains to James and Mary that a Registered Education Savings Plan could be beneficial especially with the government's grant (20% of the first $2,500 contributed per year to a total maximum of $7,200 per child). However, some grandparents have waited until the children are attending post-secondary school and, at that time, used their TFSA funds, allowing for flexibility should financial circumstances change in the future.

The Verdict?

After getting to know their goals for retirement, as well as what was available to help fund their next stage in life, Glenn feels they can in fact both retire at the end of this year and enjoy some travel time together. James and Mary couldn't be happier.

To learn more about how RBC can help you create your ideal retirement, speak to an advisor today or visit us at rbc.com/yournext30

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