

Alberta family's balancing act

Our couple has made substantial investments in the future, but they will still have to be careful and prudent

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In Alberta, a couple we'll call Morris and Frances are each 41. They have two children, ages 11 and 9, and net worth of \$510,300, including their \$400,000 house.

Morris, a civil servant, and Frances have made substantial investments in the future. Frances quit work a few years ago, giving up a \$100,000-a-year income for a PhD that is a year away from completion. Pursuit of the degree has been costly, for the family currently has after-tax income of \$7,582 a month. After Frances returns to work, she expects to generate \$100,000 before tax each year, a \$70,000 boost to her current part-time income. The additional income will enable the family to save for their children's education, for retirement, and to add to their travel budget.

Client situation

The People: Couple, both 41, with children 11 and 9

The Problem: Debt and lack of vision have impaired retirement planning

The Plan: Structure debt repayment and savings

The Payoff: \$100,000 pretax retirement income

Net monthly income: \$7,582

Assets: \$400,000; Rental condo \$225,000; RRSP \$60,000; Pensions \$138,000; RESP \$20,000; Total \$843,000

Monthly disbursements: House mortgage \$1,000; Property tax \$200; Condo maintenance and tax \$225; Condo mortgage \$900; Utilities, phones \$500; Food \$1,000; Restaurants \$300; Transit pass and parking \$120; Clothing \$500; Child care \$50; RESP \$122; RRSP \$120; Car fuel, repairs \$375; Travel \$350; Car, home insurance \$200; Life insurance \$50; Piano lessons \$160; Charity and gifts \$100; Education expenses \$100; Health club \$40; Line of credit \$70; Misc. \$100; Savings \$1,000; Total: \$7,582

Liabilities: Condo mortgage \$138,300; Home mortgage \$154,400; Line of credit \$40,000; Total: \$332,700

What our expert says

Facelift asked Adrian Mastracci, a financial planner and portfolio manager who heads KCM Wealth Management Inc. in Vancouver, to work with the couple. "Their priorities are to reduce debt, fund their kids' educations and to maintain a comfortable quality of life," he says.

Morris and Frances have to work out a balance of present and future spending that will accommodate their needs and those of their two children. They currently save \$1,000 a month after RRSP contributions. Morris has a defined-benefit pension plan that will pay \$4,300 a month in 20 years. Frances has a similar plan that will pay her \$642 a month beginning in 20 years.

The couple has not focused on a retirement goal. They initially thought of an annual target near \$150,000 in

current dollars before tax, beginning when they are 60 and lasting for their lifetimes. That goal is neither attainable nor necessary based on their present incomes, Mr. Mastracci notes. He adds that \$100,000 before tax in 19 years is more realistic in terms of their jobs and their needs. After the elimination of retirement savings, education savings, mortgage payments, piano lessons and other costs of raising children, they will likely have more disposable income than they do now, the planner says.

Assuming that Morris will live to 83, Frances to 88, and that registered investments produce a 3.5-per-cent average annual real return, attaining the \$100,000 pretax retirement income goal in 2009 dollars requires \$1,050,000 of investment assets in addition to Canada Pension Plan and Old Age Security payments, Mr. Mastracci estimates. The couple should repay debts, mainly made up of mortgages, of \$332,700 prior to retirement, he adds. As well, they need to save \$27,700 a year for the next 19 years. Of that sum, \$10,000 would go to Tax-Free Savings Accounts, which they should establish, and the balance to RRSPs, Mr. Mastracci suggests.

They will also have to build up their registered education savings plan assets for their children's post-secondary education. They currently contribute \$1,460 a year but will have to raise contributions to their children's RESP, which has a current value of \$20,000. If Morris and Frances want their children to attain advanced degrees, they might have to accumulate as much as \$200,000 for tuition and related expenses. That goal would require savings of \$16,000 per year. That would qualify each child for the \$500-a-year maximum Canada Education Savings Grant. This amount of cash can only be obtained from Frances's cash flow following her return to work.

To meet their retirement income goals at age 60, the couple should have \$51,600 from Morris's employment pension, \$7,700 from Frances' work pension, and \$40,700 from investment assets for a total of \$100,000.

At age 65, they would have estimated CPP benefits of \$10,905 for Morris, \$8,724 for Frances, OAS of \$6,204 each, Morris's work pension of \$51,600, Frances' potential employment pension of \$7,700, and need draw only \$8,663 from investment assets for a total of \$100,000. The couple should allow RRSP assets to grow as long as possible without being drawn down, Mr. Mastracci suggests.

Morris and Frances should begin with the easiest step – setting up a Tax-Free Savings Account this year with \$5,000 in each of two accounts. If the funds are invested for the next 20 years, then they would have total TFSA capital of \$268,700 in 2009 dollars, which would give them additional income of about \$8,000. This sum would add to their \$100,000 of pension and investing income. The payout rate can be adjusted to maintain the cash flow indefinitely and to preserve capital as a legacy to their children if the couple wishes.

“Morris and Frances need not be anxious about their retirement plans nor about building assets for their children,” Mr. Mastracci says. “The key to realizing their wishes is Frances's ability to return to work at her customary salary. If she does not earn six figures or close to it, then they would have to choose between education savings and their own retirement savings. For income security, they should investigate disability insurance. For the sake of their high expectations for their children's educations, the couple should make sure that their life insurance coverage is sufficient to cover the financial consequences of the death of one or both parents.”

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