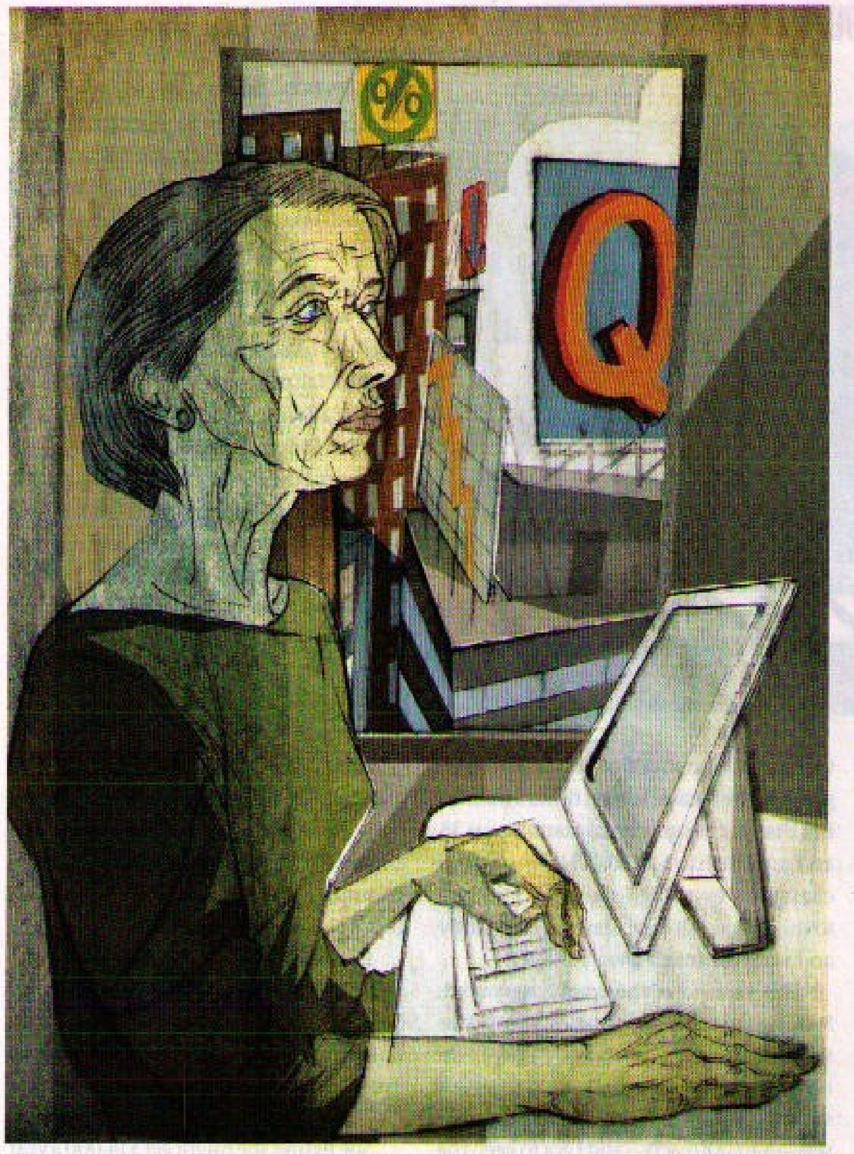
"I'm 63 and scared"

The market crash hammered Louise Stanton's RRSP. Can she still afford to retire?

by Julie Cazzin



LOUISE STANTON always dreamed of a retirement that would be full of travel and fine restaurants. The 63-year-old legal secretary saved and invested her money for years to make that dream come true. But then came the stock market collapse of the past year.

The downturn chopped the value of her retirement savings by a third. She has only $140,000 left and worries about an impoverished old age. "I've pushed my retirement date back to 68, but I worry that I won't make it," says Stanton, who makes $63,000 a year at a downtown Toronto law firm. "Legal offices are cutting back. Even though I've been with this firm for 18 years, I could easily be the next one to go. Then what? Who's going to hire a 63-year-old woman when they can hire someone half my age for half my salary?"

Stanton (we've changed her name to protect her privacy) has already begun reforming her financial plan. Step No. 1? Firing her financial adviser. This was particularly painful because her adviser was also her sister. "I gave my RRSP money to her when she got her first job in 1998 as a financial planner," says Stanton. "I regretted it immediately, but I was too worried about offending her to withdraw my money. I finally decided I couldn't wait any longer. She had me completely in stocks before the crash. I've lost so much of my money that I absolutely have to get my investments back on track if I'm ever going to retire."

Not that Stanton is blaming all her problems on her sister. She kicks herself for sinking the bulk of her life savings into a $375,000 townhome in a small town north of Toronto. "I bought it three years ago, because I kept hearing about real estate prices going up, up, up, and thought it would be a good investment. What was I thinking? I now have to commute an hour and a half each way to get to work in downtown Toronto and my monthly costs have ballooned. I'm trying to sell it, but the market is dismal."

Even if Stanton sells her home and gets her investment portfolio sorted out, she doesn't know when—or if—she'll be able to retire. "I want to make the best choices now so I don't have to worry about money in the future. Can you help?"

STANTON GREW UP IN DOWNTOWN Toronto. Her father was a barber and her mother did odd jobs—everything from sewing to working part-time at the post office. "My parents had to be good with money because they didn't have any," says Stanton. "But they managed to raise five kids and give each of us a good start in life."

Each of Stanton's four siblings went off to university, but she wasn't inclined to follow in their footsteps. She enrolled in a one-year secretarial program. After graduation, she landed a job with an oil company. She worked there for four years, then took a one-year break to travel through Europe. When she returned she found a job with a small law firm. A year later, she met Dave, a lawyer. They soon married.

The newlyweds bought a showpiece home in King City, 30 km north of Toronto, and lived the good life, traveling the ➤

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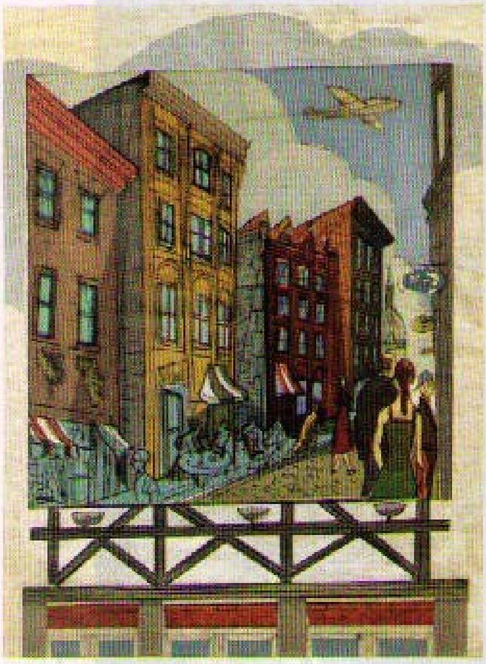

world, eating out at fine restaurants and going to the theatre several times a month. But that all changed when Stanton was 38 and gave birth to Matilda. "Having a child changed everything," she says. "I wanted to stay home, but Dave traveled constantly and was very much a workaholic."

Five years later the couple separated. Stanton was suddenly a single mom. "Dave treated me fairly," she says. "There was never a problem with child support or spousal support. We split the RRSP assets—$40,000 each—and I got to keep the family home. I returned to work when Matilda was six."

Stanton soon realized her income wasn't enough to keep up with the mortgage on the King City home. She sold it and used the proceeds to buy a much smaller home for $225,000. She and Matilda were happy there. But then came a big mistake. "After Matilda went off to university, I became convinced that selling that house and buying a townhouse in a retirement community would be a better investment for me," she says. "I bought the townhome for $375,000, which I could just barely afford. But I didn't bargain on the extra costs. On top of a $79,000 mortgage, I have to pay $5,000 a year in condo fees and $6,000 a year in transportation costs to commute to work. All of that eats up a big part of my paycheque."

Stanton has put the townhouse up for sale. She's asking exactly what she paid for it—$375,000—but it's sat on the market for months. If she can manage to sell it for close to her asking price, she plans to buy a $300,000 condo in midtown Toronto. This will eliminate her mortgage and cut down on her transportation costs.

Stanton's other big problem is her retirement savings. Back in 1998, her RRSP was worth $113,000. When her sister became a financial planner, Stanton decided to invest it all with her. "From the beginning, I didn't feel my account was being properly managed. I'd question my sister about what fees I was paying on the mutual funds and she avoided the question. I never added any more money to that account, but left it with my sister for the last 10 years. It's now worth $93,490—about $20,000 less than when I started. I've lost money and paid a couple of thousand dollars a year in fees to boot. It was a stupid thing to do."

Since 2000 Stanton has contributed to a second RRSP through a program offered by her law firm. Her employer matches every dollar she puts into the plan. She has accumulated $46,868 and continues to contribute about $3,500 a year.

Between these two RRSP accounts Stanton has about $140,000 in savings. No matter how hard she tries, she has a hard time seeing how her money can provide anything more than a meagre retirement.

She figures she might get $14,000 a year from Canada Pension Plan and Old Age Security when she hits 65. Her RRSPs could provide another $5,000 to $10,000 a year, depending on how aggressive she wants to be about withdrawing her money. "On the one hand, I never want to run out of money," says Stanton. "But if I'm conservative, and take out only $5,000 a year from my RRSPs, that gives me only $19,000 a year to live on. Can I live on $19,000 a year? Working part time is an option and I figure I'll try to do that for a few years after 68. But I'm still scared."

Stanton would like part of her portfolio to be rock solid and guaranteed for life. She's been looking into buying an annuity to provide her with a fixed income as long as she lives, but finds the terminology is baffling. "I see terms like variable rate annuities, inflation-adjusted annuities. I'm not sure which one is best for me," she says.

Stanton doesn't expect miracles, but she would like a decent retirement. "I don't expect to have enough money to travel. I'd be happy knowing that I could go out to the theatre with friends and enjoy a good restaurant ever now and then. But I'm a realist. I know I have limited choices."

WHERE SHE STANDS

Assets	
Home	**$375,000**
RRSP at work	**46,868**
RRSP	**93,490**
Chequing account	**1,000**
Savings account	**3,000**
Tax-free savings account	**50**
Car (2006 Toyota Corolla)	**15,000**
TOTAL ASSETS	**$534,408**
Liabilities	
Mortgage (1.8% to 2010)	**$79,200**
TOTAL LIABILITIES	**79,200**
Net worth (total assets minus total liabilities)	**$455,208**

What the experts say

Our experts say Stanton has made two big mistakes—entrusting her savings to a family member and buying a home because of its perceived investment potential. Now, at 63, every decision she makes is crucial. "Louise needs to make the most of what she has," says Marc Lamontagne, a fee-only planner with Ryan Lamontagne in Ottawa. "She can't afford another mistake."

Keep working. Alfred Feth, a fee-for-service financial planner in Waterloo, Ont., says Stanton should work as long as she can. "The social benefits offered through the Canada Pension Plan (CPP) and Old Age Security (OAS) aren't enough for most single retirees to live on comfortably. She should count on working until 68 if she can, and 65 as the absolute minimum." During that time, Stanton should continue contributing to her workplace RRSP plan to take advantage of her employer's matching contributions. "She needs to bulk up her assets to support a comfortable retirement."

Run the numbers. Feth and Lamontagne estimate that Stanton will need to have $36,000 a year in net income when she retires (or $3,000 a month) to maintain the lifestyle she has now.

She can increase her CPP payments by working beyond age 65. If she retires at 68,

Illustration by EVONRUDE

HOW THE MONEY IS SPENT

Yearly disposable income

Stanton's income	$63,466
Minus: taxes and other deductions	−22,740
NET DISPOSABLE INCOME	**$40,726**

Yearly expenses

Shelter	
Mortgage repayment	$5,887
Condominium fees	4,860
Property taxes	3,700
Property insurance	540
Hydro/Gas/Water	3,420
Home phone/Cell phone	855
Cable	768
Total shelter	**$20,030**
Transportation	
Car insurance	$1,704
Gas	1,620
Public transportation	2,532
Highway tolls	100
Total transportation	**$5,956**
Personal	
Groceries	$4,800
Haircuts	500
Charity	150
Books/magazines	348
Miscellaneous (restaurants, vacation, gifts, clothing, furniture, dry cleaning, home repairs	8,800
Total personal	**$14,598**
TOTAL EXPENSES	**$40,584**
Total income available for investment (total income minus total expenses)	**$142**

her CPP payments will swell to $14,708 a year—about 18% higher than if she quit work at 65. OAS will chip in another $6,000 a year, giving her a combined total of $20,708 a year. Stanton will have to use her savings to bridge the $16,000 gap between that and her $36,000 target.

Learn to love renting. Both Feth and Lamontagne say that when Stanton sells her townhouse, she should rent. She will need the $300,000 from the sale of her home to generate income.

Lamontagne estimates that renting a one-bedroom apartment in Toronto will cost Stanton about $1,300 a month, the same amount as property taxes, condo fees, utilities and maintenance on a paid-off condo. "Most people think 'If I buy a condo and don't have a mortgage, my expenses will be lower'," says Lamontagne. "This is not true."

Invest wisely. Stanton should become a very conservative investor. "Capital preservation should be her No. 1 priority," says Feth. "She can't afford to lose any money." Feth suggests that Stanton invest her portfolio in a mix of 80% fixed income securities (such as bonds, GICs and money market funds) and 20% stocks.

Moshe Milevsky, associate professor of finance at the Schulich School of Business at York University in Toronto, agrees Stanton should be conservative, but feels she could benefit from a higher weighting of stocks that might give her more growth potential in the long run. He recommends a blend of 50% fixed income and 50% stocks. "She should invest that money in low-fee products such as iShares to make the most of her money," says Milevsky. He recommends she put 50% of her money in the iShares Canadian Bond Index Fund (XBB) and the remaining 50% in the iShares CDN MSCI World Index Fund (XWD). She should ease into that mix over a year or two to even out any market turbulence.

Buy an annuity. Once she stops working, Stanton will need to use her money to generate income. The best way to ensure herself an income for as long as she lives is to take part of her money and buy an annuity.

An annuity is a contract with an insurance company or bank. You pay the company a lump sum; the company then guarantees to pay you a set monthly income for a set period of time, much like a pension. In general, the payments you receive are based on your age (the older you are when payments start, the higher the payment) and interest rates at the time of purchase (the higher, the better).

One plan. Feth says annuities are complicated, so Stanton should seek help from a fee-only planner to get the best deal. He recommends she start by immediately buying a so-called variable rate annuity with guaranteed monthly withdrawals. This type of annuity allows her to withdraw money if she needs it, but gives her bonuses the longer she refrains from doing so. If she takes the $93,000 in her first RRSP, she should be able to buy a suitable annuity that will pay her at least $6,900 a year if she starts collecting at 71, when the law requires her to collapse her RRSPs.

When she hits 68 and stops working, she can use the money that will have accumulated in her RRSP at work to buy a second annuity. This should be a so-called life annuity that guarantees her a set monthly payment for life. Stanton should look for one that will start making payments when she turns 71. Feth estimates that an annuity of this type should provide her with $9,600 a year for life beginning at 71.

The two annuities together should pay her the $16,000 a year she needs to augment her government money, from the time she hits 71 until the day she dies. Between the time she retires at 68 and the time the annuities begin paying at 71, Stanton could withdraw $16,000 a year from her $300,000 investment portfolio to bridge the gap. At 71, when her annuity payments begin, she can start digging into whatever remains in her investment portfolio to cover unforeseen expenses. "The nice thing about this plan is that it keeps her investment portfolio liquid and accessible," says Feth. "If she is laid off tomorrow, she has a cash cushion to get by on."

Another plan. Lamontagne offers another proposal. He says Stanton could retire as early as 65 if she used the $300,000 she gets from the sale of her home to buy a life annuity. It would pay her $1,750 a month (or $21,000 a year) starting at 65 for the rest of her life. "This will allow her to keep her RRSP money, which she could draw down at 71," says Lamontagne. "Her RRSPs could serve as her emergency money."

One more plan. If Stanton wants to keep control of her money as long as possible, she could take $100,000 from the sale of her home and buy a life annuity that begins paying out $16,000 a year when she turns 80. "I call it longevity insurance and it's an ideal solution for a person like Louise," says Milevksy. "It gives her the insurance she needs against extraordinarily high longevity." Knowing she will never run out of money no matter how long she lives, Stanton then faces only the relatively straightforward task of making the rest of her money last until she hits 80. ■

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