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Family file: So far so good?

Eva Salinas, Financial Post Magazine

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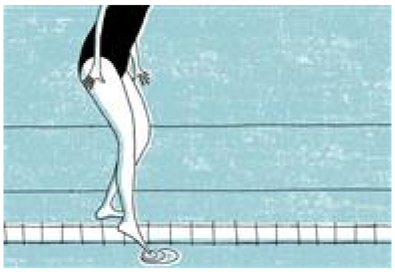

Alanna Cavanagh

By just about any measure, Susan Wheeler has done well in life. Now in her early 50s, the Toronto-based business consultant has run her own company for more than two decades, owns her home outright, has three almost-grown children from a former marriage and has amassed investments worth just over $1 million, with savings of about $28,000 a year. Looking at her position on paper, few would conclude that she faces roadblocks to a long and comfortable retirement. Susan (not her real name) isn't so confident. "I'm nervous," she says. "The economy is tanking and the stock market isn't doing well."

At the heart of Susan's concerns is how she's been investing. Conservative by nature, she has more than half her savings - $670,000, accumulated by saving, and through a modest inheritance and her divorce settlement - in GICs, earning about 4% a year. She also has two RRSPs currently worth $483,000 combined. That's a lot of money, but Susan worries about what it will be worth in the future. "I think of living off interest in retirement, but you have to factor in inflation. Today, I might say I need so many thousands of dollars a year, but in 15 years that might mean I need three times that much. Who knows?" Many investors would deal with this issue by accepting more risk in their portfolios in exchange for potentially higher returns. Indeed, Susan is tempted by such thoughts, but her conservative nature makes her wary about dipping her toe in that pool. "I'd be willing to be more aggressive with a small portion of my savings to try to yield a higher result, but I don't want to risk very much of my nest egg."

Financial Snapshot

Income	
Salary	108,000
Other income	10,000
TOTAL	$118,000
Expenses	
Income tax	36,400
Property taxes	8,000
Children's education	12,000
House insurance	1,100
Heat, utilities	5,170
Car maintenance, gas	5,500
Car insurance	1,400
Disability insurance	3,270
Food, clothing	8,000
Phone, internet, cable	2,160
Vacation	5,000
Entertainment	2,000
TOTAL EXPENSES	$90,000

Savings	
RRSP	18,000
RESP	5,000
Non registered	5,000
TOTAL SAVINGS	$28,000
Assets	
House	1,100,000
Car	30,000
Taxi licence	100,000
RRSPs	483,500
Non-registered savings	670,000
Cash	50,000
RESP	24,000
TOTAL ASSETS	$2,457,500
Liabilities	
None	
TOTAL LIABILITIES	0
NET WORTH	$2,457,500

On the upside, Susan's conservatism extends to her expectations for retirement, and her plans are not lavish given the strong foundation she has already built. Although she hasn't figured out home much income she'll need, her current plan is to stop working when she turns 65. After that, she doesn't see herself making many changes. She'd like to maintain her current lifestyle, which is already frugal when it comes to discretionary spending on items like clothes and entertainment. "I don't shop like a lot of other women," she says, laughing. "When I buy something, it has got to be 70% off. And it has to be good quality. I buy things that last so I don't have to replace them. I'd rather spend more up front and save in the long run." She'd also like to continue to treat herself to annual holidays, which currently account for $5,000 of her personal spending, and to have enough money to drive a decent car. Otherwise, Susan has only one major goal that's not already covered by her current budget - the ability to spend her winters in Florida, which she estimates will cost $15,000 a year. She could go a long way towards covering that cost if she were prepared to eventually downsize and sell her home, which is currently valued at $1.1 million. But Susan says that she's happy where she is and has no desire to move after she wraps ups her career.

Also working in Susan's favour is the fact that she has at least a decade's worth of working years ahead of her before she hits retirement age. What's more, she has only one major financial hurdle left to clear: seeing her children through their university years. And she won't be dealing with that expense - which she shares with her ex-husband - for very much longer. Of their three children, one is about to graduate from university, another is in second year and the third is just finishing high school. Since Susan has $24,000 invested in RESP accounts, it's not likely that education costs will interfere with her ability save over the next few years.

In fact, the only worry Susan has going forward is whether her business income will remain stable if the economy takes a protracted turn for the worse. That and whether her considerable savings really are sufficient to fund a long and comfortable retirement. "You never know how long you're going to live and how much money you're going to need," Susan says. "You have all these experts telling you that you need this many millions or that many million. It's really hard to know what the answer is."

WHAT THE EXPERTS SAY

First things first: If Susan is worried about whether she has sufficient savings for retirement, she can stop right now, according to our experts. "There's a lot of potential in her situation," says Fabio Ventolini, a certified financial planner with ECC Financial Planning Group in Toronto. Scott Plaskett, of Toronto's Ironshield Financial Planning, agrees: "Susan has done a great job of amassing a sizeable net worth." Best of all, both planners say that Susan may not have to take on more risk to meet her goals.

Instead of worrying about diversifying her portfolio, our advisers say Susan should focus on reducing her tax bill, which would free up more for saving and increase her overall security without necessarily increasing her risk exposure. Ventolini says she should begin by looking at classes of investments she keeps inside and outside her RRSPs. "Susan has $670,000 in GICs outside her RRSPs. The interest earned on this is fully taxable," he says. "You could argue that she should have her GICs inside her RRSPs, where they'd be sheltered from taxation, and her smaller mutual fund investments outside her RRSPs. That could save a lot of money."

Meanwhile, both Ventolini and Plaskett see opportunities for Susan to reduce her tax bill by incorporating her company, which would generate several opportunities for savings. Plaskett also says she should consider starting an individual pension plan through her firm, a retirement-saving option that works well for company executives and incorporated professionals over the age of 45 with incomes of more than $100,000. The chief advantage of IPPs over RRSPs are the size of the maximum allowable contributions. At Susan's age and income, she would be allowed a maximum contribution equal to 23.6% of her income, a considerable increase of the maximum allowable RRSP contribution of 18%, Plaskett says. Better yet, she'd be able to make retroactive contributions back to 2000, the year the IPP program was launched, which would be worth more than $75,000. The only downside to opening an IPP is that funds are locked in and wouldn't be available in the case of a financial emergency.

Plaskett adds that Susan could make her children employees of her incorporated firm (paying them nominal salaries), which would make them eligible for profit sharing. Susan currently gives money to her children from her own income, which is taxed at her marginal rate. If she distributed that money to her children through her company as profit sharing, they'd pay the tax, but at much lower rates.

Moving on to personal finances, Ventolini suggests Susan keep an open mind about selling her home at some point. She won't need all that space once her children are grown, and she could realize significant tax-free profit if she were to eventually downsize to a smaller house or condo. She might even come away with enough to buy property in Florida. Likewise, he says she should start making plans for winding down her business. "What's the possibility that she could sell it to another consultant who doesn't want the hassle of setting up from scratch?" he asks.

Plaskett, meanwhile, says Susan could benefit from buying a universal life insurance policy, which mixes insurance with investment management. This would be a good way to hold some of her GIC savings, the immediate advantage being that these savings would now be able to grow in a tax-sheltered environment, and Susan would be able draw on them as needed. Additionally, a universal life policy would help with estate planning, as it would pay out a tax-free benefit to her beneficiaries, thus compensating for money lost to estate taxes.

All told, both Ventolini and Plaskett say Susan is well on track to meeting all of her goals in retirement, with Plaskett estimating that she should have no trouble generating an income of more than $80,0000 a year between the ages of 65 and 90 if she takes steps to reduce her tax bill and increase her savings. "She's in a fantastic position to take advantage of a lot of strategies," he says. Adds Ventolini: "I wouldn't be surprised if she could save more than $40,000 a year to meet her goals. If her savings increase substantially, we may not even have to look at getting the highest return on her money and increasing her investment risk."