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Business / Personal Finance

She's single, 47 and debt-free. Can she afford to retire?

Monday Makeover looks at the case of Kathleen who wants to retire when she's 50. She also wants to spend \$250,000 renovating her home. Can she do both?

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60 more girls and women, 31 boys

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Kathleen hopes to retire at 50. She'll likely be able to.

By: Deanne Gage Special to the Star, Published on Sun Jun 22 2014

Kathleen is a 47-year-old single woman who works as a communications specialist for a professional association. She has no children and hopes to retire in three years.

Kathleen is luckier than most because she is debt free and recently received a six-figure inheritance. Her investable assets include \$167,000 in RRSPs, \$660,000 in investments, and \$24,000 in her Tax Free Savings Account. Her paid-off home is worth \$600,000.

In retirement, she would like to have \$40,000 a year in net income.

She hopes a combination of her company pension (expected to pay about \$23,000 a year when she turns 55) and drawing on her investments will give her that amount.

While her assets sound like more than enough for her to quit working, Kathleen worries about outliving her money. Most people wait until at least age 55 or 60 before even thinking about retirement. Will Kathleen's nest egg truly be enough to last up to four decades, if not longer? Kathleen also wants to spend \$250,000 renovating her house and wonders how withdrawing such a hefty amount from her assets will affect her income for retirement.

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The Star asked Scott Plaskett, a certified financial planner and president at Toronto-based Ironshield Financial Planning, to work with Kathleen.

The good news is that she has already hit her financial freedom point, Plaskett says. She can retire now and not wait another three years.

In most cases, Plaskett delivers the opposite news — work longer to save more for retirement. But Kathleen's early inheritance has upped her financial situation considerably. Plus, she has a pension that will deliver almost half of her required amount.

Here's the best part: All Kathleen needs is to consistently earn a 3.2 per cent rate of return on her portfolio to meet her retirement goals. That means she doesn't have to take on a lot of risk and potentially erode her capital. She will be able to take out as much as \$50,000 a year and still be OK.

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Her home renovation plans would not affect her ability to retire because she has more than enough assets. “(Doing a reno) will increase the value of her net worth by increasing the value of her home,” he says.

When she retires, Kathleen will fall into a 21 per cent marginal tax bracket, compared to 39.4 per cent now. But she should expect her tax bracket to rise once again after age 72 to around 34 per cent. That’s when she’ll have to collapse her RRSP and convert it to a Registered Retirement Income Fund. At that time, the government will require her to start withdrawing specific amounts from her RRIF, which will push her into a higher tax bracket.

Since her portfolio is substantial, Plaskett suggests Kathleen explore the options available to her, such as hiring an investment counseling firm. “Hiring a portfolio manager directly is possible with her size of portfolio. The portfolio manager can design and manage a custom portfolio for her,” he says.

“Removing the structure of mutual funds would bring her fees down and make any fees she does incur tax-deductible to her. When a person’s portfolio hits \$500,000, you’re able to hire managers and get better attention on a portfolio.”

Plaskett is concerned Kathleen doesn’t have a fall back plan. While she’s doing everything right, sometimes life can put you on a different path, he says. “She has significant risk because she is single and has nobody to help if needed,” he says. “This can ruin a well-established financial plan very quickly.”

Once she retires, disability insurance will cease to be an option, for instance — she must earn an income to qualify. Plaskett suggests she meet with a living benefits specialist, who focuses on disability, critical illness and long-term care insurance. She can learn more about how they can protect her in the event of disability or contracting a critical disease.

While Kathleen has no dependent, those two types of insurance would pay out a lump sum for her expenses. “They are the ones that would directly benefit her should anything happen,” Plaskett says. “If you look at the probabilities, they are high that something will happen to her over her lifetime. In the case of long-term care, she doesn’t have anybody she can turn to, so she would need to hire outside care and that cost is substantial.

In a worse case scenario, Kathleen could sell her home to fund long-term care costs but her home is something she indicated that she wants to hold onto for the foreseeable future.

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The client: Kathleen, 47

The problem: Kathleen wants to retire within three years but wants to ensure she can also swing a substantial home renovation within the next five years.

The advice: Kathleen has sufficient funds to retire even when factoring in renovation costs. She should enlist an investment counselling firm to professional manage her portfolio and reduce overall fees.

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Smeng

This woman is not lucky, she's smart for being debt free, maintaining an RRSP and TFSA and also mortgage free. And given he expectations for a living income of 50K/year is a clear indicator of her intelligent spending habits. She's unique in a world of debt ridden individuals with bleak futures of having to work forever. And for those who think that she is at a disadvantage if she become disabled as a single, there is no guarantee that a spouse will not 'take off' if a married person gets sick.

1 day ago 4 Likes

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pennywise

@Smeng Inheriting a 6 figure sum IS luck, nothing to do with hard work.

22 hours ago 0 Likes



Smeng

@pennywise

If there was no 6 figure inheritance she would still be on track to retire well before age 65 as she has all the basics correct which most people either can't achieve or don't achieve.

22 hours ago 1 Like



Spin5150

I have an ex-wife and 4 kids. My retirement plans involve a shovel and a wood box...

1 day ago 0 Likes



tony0

So much envy and jealousy in these comments! My problem is mathematical: If Kathleen deducts \$250k from her investments, she would have \$567,000 left, plus her TFSA of \$24k. How on Earth does that allow her to withdraw \$50k per year if she is only averaging 3.2%? Unless she plans to live only until age 67, she will outlive her money. Can the author of the column help me with the math and clear this up?

1 day ago 0 Likes



dpirraglia

@tony0 Don't forget that she has her work pension at \$23K, which she receives once she turns 55. That reduces the amount she has to withdraw from her assets.

1 day ago 2 Likes



tony0

Hey Candleflame3:

The planner can only deal with real situations, not what ifs. The fact that she is single means that she IS vulnerable if she becomes disabled, just like any man would be. The issue is her disability, not her gender. Getting very tired of thin-skinned politically correct hysterics running amok.

1 day ago 1 Like

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From the Outside

@candleflame3 Here is one:

http://www.thestar.com/business/personal_finance/2013/12/30/monday_makeover_twoproved_approach_targets_mortgage_and_retirement_savings.html

18 hours ago 0 Likes



candleflame3

@From the Outside Thanks! I don't see anything about his being alone with no one to help, so there you go.

13 hours ago 0 Likes



candleflame3

"She has significant risk because she is single and has nobody to help if needed,"

She might get married later, she might have family or friends that can help. But good job on the stereotyping of single women! Sheesh.

1 day ago 0 Likes

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theNickster

@candleflame3

Good grief. Any financial planner would bring this up. There's enough real sexism in the world without inventing it where it doesn't exist.

Are you a developer? Try out the [HTML to PDF API](#)

20 hours ago 0 Likes



candleflame3

@_lady_jane_ We'll see when they do a profile on a single man.

19 hours ago 0 Likes



holypolarbear

This article seems as a joke, rather than a serious "problem solving" one. It is like, one takes a new Mercedes Benz to a bunch of mechanics and ask how to make it better. If The Star wants to make an article about a "real problem", it is better to ask Scott Plaskett to give advice for "a single mother with 3 school kids with a part-time job with minimum wage, under medication for depression and mental health issues, living in a room shared with another family". How this mother can manage her...

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1 day ago 0 Likes



Gary B

Advice and estimates are one thing, reality is another. Complete the renovation first and put that cost behind you. \$250k can turn into \$350k in very short notice. The rest will depend on lifestyle. Good Luck.

1 day ago 0 Likes



Miss Molly

It's a great problem for her to have but depressing for me! I like reading these stories because they're interesting but they also make me realize I will probably retire when I'm dead.

1 day ago 0 Likes



scarboni888

@Miss Molly The good news is you'll have all eternity to not work at that point. So just think of retirement as overrated and you're all set!

1 day ago 0 Likes



Super-Logical

She needs to go to the public to figure this out. Kathleen wants to brag !

1 day ago 2 Likes



Smeng

@Super-Logical

It's a good news story. What's yours? Debts?

23 hours ago 0 Likes



eliyahoo

This is great for Kathleen, but not reality for a family of mother, father, four children, soon to be university bound (and, oh yes, no six figure inheritance coming our way either!) Sounds like Kathleen has it made.

1 day ago 1 Like



microbiologist

@eliyahoo

Sure, but advice aimed at a nuclear family with a lot of school-aged children is not going to be relevant to everyone either.

1 day ago 0 Likes



eliyahoo

@microbiologist Just sayin'.....

1 day ago 0 Likes

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