

Couple's retirement plans not in danger

WILSONS MAKE GOOD MONEY, OWN HOMES

RRSP shrinkage causes some concern but 'they'll recover,' adviser says

Some investors just shrug off stock-market volatility. Barbara Wilson isn't one of them.

"I'm losing sleep," she said in an interview at the semi-detached house she shares with husband Hal.

Wilson, 42, has seen the value of her RRSP shrink from \$104,000 a year ago to about \$74,000 now.

The RRSP is invested completely in equity mutual funds chosen last year by her adviser, who managed her husband's portfolio to solid results in previous years. Hal, too, has taken a beating, with his "low to medium-risk" RRSP down almost \$30,000 from \$107,000 earlier this year.

"I was very conservatively invested before but when I saw Hal's results, I felt like I was missing out," she said. "Now, I realize I'm not comfortable with the extreme gyrations of the market. It took me a long time to make that money. Seeing it disappear makes me anxious. When it gets back to where I started, I think I'll just sell them all and put it in something more conservative."

Hal, for his part, isn't fretting over the decline. With 20 years to retirement, the 42-year-old says he's confident the investments will rebound.

The Wilsons, who have no children, work at good-paying jobs with major companies and gross roughly \$200,000 a year.

Hal's base salary is \$110,000, but with bonuses he earned \$150,000 last year. This year, \$130,000 is more likely, he said.

His high-tech employer is going through a rough patch, however, and job security is becoming a concern.

"As a tech consultant, I'm pretty sure I'd be able to find work somewhere if I lost this job," he said. "The question is, at what salary?"

He's worked there three years and is in the pension plan, but the company doesn't guarantee its pension contributions.

Benefits don't compare with those of Barbara's employer, a large financial-services company that covers 100 per cent of medical, prescription and dental costs and even pays up to \$350 a year toward a fitness-club membership, so he opted out of his benefit package for everything but the life insurance.

Barbara, who has eight years' seniority at the company, earns about \$65,000 a year. In addition to her RRSP, she's in the company pension plan.

Her employer provides life-insurance coverage equal to three times salary. Hal gets \$220,000 in coverage through his job. They have no other insurance. Nor do they have wills or mandates.

The Wilsons have one vehicle, with three years left on the lease of \$350 a month. Credit cards are paid off monthly.

Their major unregistered assets are two real-estate properties.

One is a duplex that Hal bought seven years ago for \$130,000, spent \$80,000 renovating, and lived in until 2007. The mortgage now stands at \$120,000. The duplex was recently evaluated at \$490,000.

It generates \$2,200 a month in rental revenue, which after expenses, mortgage (\$1,200 a month) and deductions leaves a net of about \$2,500 a year, said Hal, who does much of the upkeep himself.

Their principal residence is the semi-detached, bought last year in a prized neighbourhood for \$490,000.

"We bought high," Barbara said.

have largely been paid for with their line of credit, which has an outstanding balance of \$40,000.

"That's our goal right now, to get that down to zero," Barbara said. "If we put in all our extra money, including bonuses, we're hoping to get there in two years. Then we can start making extra payments on the (home) mortgage. My goal is to be mortgage-free as soon as possible. That seems like the wisest investment we can make these days, the way the stock market's been."

The Wilsons aren't ruling out eventually moving back into one unit of the duplex, using the proceeds of the house sale to help finance their retirement. But they're also toying with the idea of selling the duplex to pay down current debt.

Are the Wilsons carrying too much debt? Should they sell the duplex and pay off their house? Are they sufficiently insured? Are their investments sound and suitable? Is there a tax-efficient strategy they could be employing to boost their net worth without taking on undue risk?

The Gazette asked advisers Martin Garneau of Majesta Financial Partners and Caroline Nalbantoglu of PWL Capital.

Garneau considers the Wilsons "in great shape financially."

"The debt load they're carrying is essentially their personal-residence mortgage and their line of credit. They anticipate paying off the line of credit in a couple of years and their mortgage will be easily paid off prior to retirement, especially as they eventually plan on making extra payments. Consequently, I see no debt issues. I do not consider the mortgage on their rental property a debt per se, but rather a business expense, as the interest is tax-deductible."

Nalbantoglu agrees the Wilsons' debt load is manageable, which



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Financial adviser Caroline Nalbantoglu says the Wilsons' debt load is manageable.

gives them the latitude to top up Hal's \$18,000 of unused RRSP contribution room, and generate a significant tax refund, before paying down the line of credit. Maximizing their RRSPs also should be an annual priority.

After crunching the numbers, Garneau could see no compelling reason for the Wilsons to sell the duplex, unless they no longer want to be landlords.

"While it's true the Wilsons would eliminate most of their future mortgage interest costs (by selling the duplex and applying the net proceeds to their home mortgage), it would be at the expense of future appreciation of their rental property, elimination of the mortgage by their tenants and gradually increasing revenues. I estimate the Wilsons would be ahead by \$75,000 if they kept their rental property (until retirement). And if they eventually move back in, they will benefit from the principal-residence exemption upon selling (the semi-detached), and from having had tenants paying off their duplex - an

excellent strategy."

Garneau said the couple is a bit underinsured for their current credit exposure, and they need notarized wills and mandates. Nalbantoglu would like to see critical-illness and disability coverage as well.

"Oftentimes, this is more critical, because becoming disabled may mean additional expenses for the household and only limited income coming in."

The Wilsons paid a stiff price this year for having only stock funds in their portfolios, Nalbantoglu noted.

"They don't seem to have an investment policy or asset allocation strategy and they only have equity investments. In current markets, that's dangerous. They should have some exposure to fixed-income investments in order to cushion the volatility. I understand they have a 20-year horizon, but that's not a reason for not paying attention to their investments. They should educate themselves about their pension plans and their investments in order to make informed decisions when their adviser has suggestions for them."

Their investment holdings were never low-risk, because of the high equity content, but Garneau doesn't recommend selling anything now that the damage is done. "Eventually, they'll recover."

What the couple can do to lessen risk is direct new RRSP money into fixed-income products. "Over time, their portfolios will become more balanced and conservative," Garneau said.

Like all Canadians 18 and older, the Wilsons will be eligible to contribute up to \$5,000 apiece annually to tax-free savings accounts (TF-SAs) as of 2009, but Nalbantoglu suggests they hold off until 2010, focusing first on RRSPs and the line of credit. Since contribution room is carried forward, all they'll be giving up is a year of potential growth.

Nalbantoglu said the Wilsons are well on their way to retiring comfortably at age 62, but need a comprehensive financial plan to co-ordinate and optimize their approach.