



HOW TO RETIRE AT 45

The Minellis are in their late forties, and they want to retire right now. Problem is, they've never invested in anything but GICs. Can they do it? Absolutely, say our experts. In fact they could have retired years ago

BY JULIE CAZZIN ILLUSTRATION BY JULIEN PACAUD

Sophia and Vincent Minelli want to change their lives. And they want to do it now. The problem isn't their modest home in chilly Red Deer, Alta., or the five-hour drive it takes to visit family and friends in Lethbridge. It's their jobs.

For the past 23 years, Vincent, 49, has earned a living as a construction superintendent for a home builder in Red Deer.

Sophia, 47, is an office administrator at a local medical clinic. Despite their relatively young ages, the Minellis both want to quit their jobs right now and retire for good. "After so many years doing the same job, you start to get stale and you stop learning new things," Vincent says. "Our jobs just don't interest us anymore. When we were young and broke, we were motivated by annual raises. But now that's worn off. Some people want to work until they're 65. Believe me, that's not us."

Many people dream of retiring in their forties, but Sophia and Vincent (whose names we've changed to protect their privacy) are in a position to actually do it: they already have a nest egg worth \$1.8 million. They didn't inherit the money, or win the lottery. They amassed that impressive amount, dollar by dollar, over a little more than two decades by being extreme savers. They currently enjoy a total after-tax income of \$130,000 a year, and incredibly, ▶

they save more than half of that—almost \$100,000—each and every year. They've never had any debt, except for a \$75,000 mortgage on a three-bedroom, two-storey home in Red Deer that they bought during the recession of 1991. They paid that mortgage off in five short years, and their home, originally purchased for \$90,000, is now valued at \$520,000.

They think they're well prepared for retirement, but they have one big worry. While they are great savers, they are also very, very conservative investors. They have never invested in equities. All of their money has been in savings or term deposits for decades, yielding almost nothing in interest. "We're getting less than a 1% return on the \$1.28 million we have sitting in a savings account," says Vincent. "The \$460,000 in our RRSPs and tax-free savings accounts is doing a bit better in term deposits, but not by much."

Few financial professionals would recommend such a conservative portfolio, but the Minellis have never felt the need to hire an adviser, who would likely push for more aggressive investments. "When the economic collapse happened two years ago, the guys at work kept kidding me, saying that I must have lost a bundle," says Vincent. "I told them, 'Well no. I didn't lose a penny.' Sophia and I sleep very well at night with our simple savings strategy."

The Minellis' approach to saving is firmly rooted in their childhoods. Vincent originally came from a family of savers. He grew up in Winnipeg where his parents owned a laundromat and dry cleaning business. He was the oldest of three boys and spent most of his time babysitting his two younger brothers while his parents ran the family business. "The laundromat was open seven days a week, 14 hours a day," remembers Vincent. "The only time it was closed was Christmas and New Year's. My parents had a strong work ethic." He went on to study engineering at the University of Winnipeg and worked for three years in Manitoba before moving to Red Deer where he was hired as a construction manager for a small but growing building company. He's been with that employer ever since.

Sophia, the daughter of a lab technician and clerical worker, also had parents who were keen savers. She grew up in a middle-class family in Lethbridge, Alta., the youngest of four kids. Her parents opened a savings account for her when she was just 12. "My dad explained the magic of compound interest to me that year and I was hooked," says Sophia. "I've been an avid saver ever since."

HOW THE MONEY IS SPENT

YEARLY DISPOSABLE INCOME	
Vincent's income	\$115,000
Sophia's income	\$70,000
Interest	\$5,000
Minus: taxes and other deductions	-\$60,000
NET DISPOSABLE INCOME	\$130,000
YEARLY EXPENSES	
Shelter	
Property taxes	\$3,300
Home insurance	\$525
Hydro/gas/water	\$3,100
Cell phone/internet/TV	\$1,575
Total shelter	\$8,500
Transportation	
Car insurance	\$1,125
Gas	\$1,675
Maintenance	\$1,200
Total transportation	\$4,000
Personal	
Groceries	\$5,500
Clothes, haircuts, etc.	\$750
Furniture	\$500
Vacation	\$5,000
Charity	\$1,500
Gifts for holidays and birthdays	\$1,000
Restaurants	\$250
Miscellaneous	\$3,000
Total personal	\$17,500
TOTAL EXPENSES	\$30,000
Annual income available for investment (total income minus total expenses)	\$100,000

In 1986, Vincent met Sophia at a mutual friend's wedding. She had graduated from a secretarial program in Lethbridge and had come to Red Deer to accept a job as an office administrator at a local medical clinic. They were married the following year, bought their three-bedroom home in 1991, and paid off the mortgage by 1996. Then they started saving aggressively for their retirement, contributing as much as \$80,000 to \$100,000 a year.

They now have \$1.8 million in savings, but they are only earning about 0.75% on the money in their savings account and 3% on the GICs they hold in their RRSPs. So they aren't sure their conservative portfolio will withstand unforeseen economic disasters, like a spike in inflation. "But to be honest, the last thing we want to do is invest in the stock market," Vincent says. "We've heard all kinds of horror stories from the

people at work who've lost thousands of dollars over the last couple of years with the declining markets."

The Minellis say they won't need a large income in retirement. They figure they can live on just \$30,000 a year. That's because they have always had an interest in the simple living movement, which stresses spiritual rather than material satisfaction. They volunteer at their local church, support the local food bank and do occasional building projects with Habitat for Humanity, a charity that builds homes for low-income families who can't afford them. "It keeps us busy and allows us to meet great people," says Sophia. "Vincent is good at building things and we love the satisfaction we get from watching a young family finally move into their home—a home they would never have been able to afford any other way."

Whatever spare time the couple has left after doing their volunteer work is spent in their garage, which they converted into an art studio 10 years ago. The studio is full of Vincent's watercolor paintings and Sophia's clay sculptures. "Some people shop, some love music and movies," says Sophia. "We love to create art together in our little studio."

The Minellis eat out at restaurants only twice a year—on their birthdays—and prefer to cook and prepare meals at home. Sofia makes a mean chili while Vincent spends weekends experimenting with new chicken stir-fry recipes. On Saturday nights, the couple goes out to watch junior A hockey games at their local arena—a sport both Sophia and Vincent share a passion for. "I played hockey through high school and university," says Vincent. "We love watching a good hockey game and we try to keep it affordable."

Their only indulgence is their annual winter vacation. They usually go on a Caribbean cruise, but last year they went to Las Vegas for the first time and loved it. "We get pretty sick of winter by February," says Sophia, who finds that the winters in Red Deer go on much too long. "When we retire we eventually want to spend two or three months down south instead of the two weeks we spend now. We hope that our good savings habits will be enough to allow all of the pieces of the financial puzzle to fall into place for us."

The big unknown is whether they can continue to invest conservatively and still have enough to withdraw \$30,000 a year from their portfolio for the rest of their lives. They don't want to do it, but they wonder if they'll have to take a chunk of their money and invest it in a conservative investment

portfolio that includes some equities. “We view stocks and mutual funds as unnecessarily risky investments,” Vincent says. “But everywhere I turn I hear people talking about how good their returns have been this year and that’s started me wondering if we’re still on track with our simple plan. Can you help us?”

WHAT THE EXPERTS SAY

Sophia and Vincent Minelli have managed to do what few people do these days—save their way to riches. In fact, both Marc Lamontagne, a fee-only planner for Ryan Lamontagne Inc. in Ottawa, and Alfred Feth, a fee-for-service planner in Waterloo, Ont., have never seen this type of investment strategy adopted so successfully by a couple so young. “The Minellis save much like my clients who grew up during the war,” says Feth. “They make up for low returns on their money by saving thousands of dollars. They’re extreme savers and the strategy has been successful.”

Both Feth and Lamontagne agree that the couple could indeed retire today and their assets would last them a lifetime. In fact, they could have retired when Vincent was 45. Despite their unusually conservative investments, they don’t even have to change their strategy much to accomplish their goals. Here’s what they should do:

Run the numbers. The Minellis say they need \$30,000 a year, after taxes, to live comfortably. Lamontagne says that if the Minellis can increase the return on the money in their savings account from 0.75% to 3%, then based on a projected average annual inflation rate of 3%, the couple can live off their money for decades and still have \$1 million left at age 90. “These projections mean that the couple’s returns are just keeping up with inflation over the next 40

years but even so, they will have plenty left over,” says Lamontagne. In fact, he says the Minellis could spend about \$40,000 net annually and still be left with \$250,000 at age 90—more than enough. “This is a very conservative projection,” says Lamontagne.

“Still, when inflation increases, interest rates generally go up as well. So the Minellis can make the most of this by using a good GIC investment strategy to squeeze every penny of interest out of their investments.”

Try a laddered GIC portfolio. The Minellis should adopt a five-year laddered guaranteed investment certificate (GIC) portfolio. “Of course, I could tell them to split their money 50% in equity mutual funds and 50% in bonds and their returns would be higher but there’s two problems with that advice for this couple,” says Feth. “It disregards the fact that they’ve said they don’t really want to invest in equities because their risk tolerance is very, very low. That’s crucial. And, given their modest goal of \$30,000 net annually, there’s no need for them to include equities in their portfolio for better returns.”

Adopting a laddered GIC strategy is simple. In the first year, the couple should invest one-fifth of their money in a five-year GIC. The second year, they will invest another fifth in a five-year GIC, and so on for five years until all of their money is invested in GICs. When the money they invested in the first year comes due in five years, they can reinvest it for five more years and so on so that each year they are reinvesting money at the five-year rate—yielding about 3.5% today. Investing this way has two advantages: five-year terms almost always pay more in interest than one-year terms and conveniently, this strategy allows the Minellis to have access to 20% of their money every year. “It’s all they really need for their savings to last until they die,” says Feth.

Plan a withdrawal strategy. Every year until age 60, the couple should draw down the \$30,000 net they need to live on from their GIC savings (that’s about \$35,000 before taxes). This means that for the first 10 to 12 years of retirement, they will be living off of their savings alone.

Collect CPP at 60. Starting at age 60, the couple should start collecting Canada Pension (CPP). This will guarantee them about \$1,000 a month (\$12,000 annually) for the

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rest of their lives. Then, at 65, the Minellis will begin collecting Old Age Security (OAS), which will amount to \$1,100 (or \$13,200 annually) for both of them for the rest of their lives. That means that by the time the two are 65, their government benefits will total

\$25,200 annually. The remainder of what they need—about \$10,000 to \$12,000 gross annually—can be withdrawn from their GICs as they come due.

Consider annuities. Stopping work at age 49 and 47 means the Minellis could potentially be retired for up to 40 or 50 years. A number of economic and tax issues can change over that length of time and upset the couple’s well-laid plans. To ensure that their money will last, both Feth and Lamontagne suggest the couple take a portion of their money and buy annuities.

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

Feth suggests the couple consider buying annuities with the money they now have invested in RRSPs. They should buy a so-called variable rate annuity with guaranteed monthly withdrawals. This type of annuity allows them to withdraw money if they need it, but gives them bonuses if they refrain from doing so. Interest rates are low now, so it’s not a good time to buy annuities immediately. Instead, they should buy when rates go up, which is likely to happen before they approach age 60. If they do that with the \$450,000 they have in RRSPs, at age 71 they will be able to collect roughly \$27,000 a year for the rest of their lives.

When this is combined with their CPP and OAS payments, it will be more than enough for them to live very comfortably until they die. “Of course, the downside is that you can never get that lump sum payment back,” says Lamontagne. “But the upside is lifelong income, even if they both live to be 100.” **| M**

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WHERE THEY STAND	
ASSETS	
Home	\$520,000
Vincent’s RRSP	\$235,000
Sophia’s RRSP	\$215,000
Vincent’s TFSA	\$5,000
Sophia’s TFSA	\$5,000
Savings account	\$1,285,000
Cars	\$35,000
Total assets	\$2,300,000
TOTAL LIABILITIES	\$0
NET WORTH	\$2,300,000
(total assets minus total liabilities)	