Case Study: Investing for Retirement

INTRODUCTION

Michael earns $80,000/year as a college professor. He also has a part-time consulting business that earns him $20,000/year. Although he has thought about incorporating his business in the past, he prefers to keep it as a sole proprietorship to avoid the additional costs and regulatory requirements. He also carries professional liability insurance for his consulting business.

CASHFLOW & SAVINGS

His major cash outflows include $3,000/month for living expenses and $500/month towards his car payments. Every summer he spends $10,000 for travelling.

He has set up a monthly transfer to a savings account of $250 to cover emergencies. The account has grown to $34,000. In the past, Michael had purchased an index-linked GIC using a portion of his emergency funds to earn a higher rate of return.

RETIREMENT PLANNING

Michael would like to retire in 15 years at age 60. He estimates that he will need $40,000/year (in today's dollars) from his investments.

At the beginning of each year, he purchases $12,000 in mutual funds with his lump sum contribution to his RRSP. His mutual funds hold the following:

- $12,261 – Canadian Equities
- $10,675 – Canadian Energy Stocks
- $21,024 – US Large Cap Stocks
- $5,734 – International Equities
- $14,016 – Canadian Government Bonds

His RRSP account currently stands at $63,710 and he has $84,000 in unused RRSP contribution room. Michael has never contributed to a TFSA.

Now that he has paid off the mortgage on his $400,000 house and has been offered tenure at the college, Michael feels comfortable taking on additional risk to achieve a greater return on his retirement investments. He would like to allocate his investments as follows:

- 30% - Canadian Equities
- 30% - US Equities

- 15% - International Equities
- 25% - Fixed Income

In retirement he wants to have an equal split between equities and fixed income.

OTHER IDEAS

While Michael has always been comfortable with mutual funds, he worries about another market downturn similar to 2008. A friend of his recommend he look into Segregated Funds for the creditor protection and maturity guarantees they provide. Michael would like to understand the advantages and risks of each investment option before he decides. Average annual fees are 2 percent for mutual funds and three percent for segregated funds.

Michael
Statement of Net Worth

	Total
House	$ 400,000.00
Total Lifestyle Assets	**$ 400,000.00**
Non-registered savings account	$ 34,000.00
RRSP	$ 63,710.00
Total Investable Assets	**$ 97,710.00**
Total Assets	**$ 497,710.00**
Total Liabilities	**$ -**
Net Worth	**$ 497,710.00**

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Michael
Cash Flow Statement

		Annual
INCOME		
Net salary - college professor	$	80,004.00
Net income - consulting business	$	20,000.00
Total Income	**$**	**100,004.00**
Mortgage	$	-
Living expenses	$	36,000.00
Car payment	$	6,000.00
Travel	$	10,000.00
Total Living Expenses	**$**	**52,000.00**
Emergency savings account	$	3,000.00
RRSP savings	$	12,000.00
Total Living Expenses	**$**	**15,000.00**
Total Cash Outflows	**$**	**67,000.00**
Net Cash Flow	**$**	**33,004.00**