

What am I really worth?

A couple of windfalls have led Bill Hamilton to dream of a more lavish retirement than he'd planned. But his new money may not go as far as he thinks.

By David Dias

In Winnipeg, 51-year old Bill Hamilton has begun to plot his escape from working life. "I've got my eyes on the prize," he says, "I'm looking forward to retirement as soon as I can manage." It's not that Bill hates his job. He earns \$65,000 a year at a big public relations firm, and quite enjoys his work. It's just that he likes his cottage more.

Every weekend, Bill (not his real name) makes the three-hour drive from his home in Winnipeg to Lake of the Woods in Kenora, Ont. There, he parks his car, uncovers his sports boat and guides it out over the water to his small island cottage. "I love the water," says Bill, "I love to swim. I love boating. I can't wait to be at the cottage."

Until recently, Bill's plan for retirement had been to make a permanent trip to the lake, starting round the age of 60. With no wife or kids, he figured he'd sell his city condo and live at the cottage year-round, except for early winter and early spring when ice floes prevent access to the island. During those months, he'd rent an apartment in Winnipeg.

But Bill's financial picture has changed dramatically in recent years, thanks to a pair of windfalls that have bumped up his net worth up to more than \$900,000. The first arrived in 2000, when he inherited \$180,000 from his mother's estate. That was followed in 2005 by an appraisal that valued his cottage at \$300,000, a seven-fold increase from the \$40,000 he paid for it 25 years ago. Suddenly, his retirement plan started feeling shabby, and Bill began looking for a new one. Before long he came across a waterfront condo in Kenora. For \$200,000 he could get a gorgeous unit with a balcony facing the lake and a dock for his boat. Bill leapt at the opportunity, and is closing the deal with his inheritance money, which up til now has been giving him an investment income of \$13,000 yearly.

He now has a new plan for retirement. Bill's going to sell his cottage and use his new condo as his weekend getaway. Then, when he turns 56 and becomes eligible for a

\$1000 a-month pension from his employer, he'll sell his place in Winnipeg and retire to the lake-side condo full-time. But everything rests on Bill's expectation that he'll net \$500,000 from the sale of his two properties. With that, Bill figures he can make \$25,000 a year in interest alone (at 5%), without ever touching the principal. Combined with his pension, he figures his after-tax income will come in at his goal of \$30,000. On top of that, Bill's got \$175,000 in his RRSP's savings which he hopes will be a cushion along with the federal CPP and OAS benefits.

At a glance, it seems Bill has few worries. But he's concerned that he's not taking full advantage of his situation. Could he, for example retire even earlier? Or could he spend more lavishly, maybe even travel for a few months a year? Money has opened up new possibilities, and he doesn't want to miss any of them.

WHAT THE EXPERTS SAY

Our financial advisers warn that Bill might not be as well off as he thinks, his retirement plan has some glaring omissions and big assumptions. For starters, Bill's not likely to net the \$500,000 he expects from the sale of his two properties. "He's given no thought to the capital-gains issue," says Julie Leefe of Winnipeg based Bieber Securities. By selling his cottage, for example, he could be on the hook for \$60,000 in taxes. Add in real estate commissions and lawyer's fees, and he'll end up with far less than the \$300,000 he's expecting.

Bill can reduce his taxes if he declares his cottage his principal residence, though he'll have to pay capital gains when he sells his Winnipeg condo. Those taxes, however, will be lower because the profit will be smaller. "You always want to claim as principal residence the property that's appreciated the most," says Leefe.

Bill's also making questionable assumptions about the value of his properties based on today's hot real estate market, says Karen Diamond of Winnipeg's Diamond Retirement Planning Ltd. The only way to lock in those prices, she notes, is to sell immediately. "I'm just thinking of making hay while the sun shines." Even then, Bill will only net around \$445,000 after taxes and fees - \$55,000 less than he expects.

Still, the remaining funds would earn enough interest to pay the rent on a place in Winnipeg until he retires - which Leefe and Diamond say he shouldn't do until at least age 56. Bill will need both his company pension and his investment income to meet his basic goal of an after-tax income of \$30,000. But even then, Diamond and Leefe fear Bill may be cutting things too close, especially if he travels. He won't have much room to move if extra costs arise - say for health care or boat repairs - or if he has a financial crisis.

Diamond and Leefe say Bill would do better aiming for an after-tax income of around \$40,000 a year in retirement. He can still retire at 56, but to do so he'll have to start drawing down the proceeds from the sale of his properties. Diamond says he should also consider enhancing his mix of investments. Right now, Bill's money is in conservative products like GIC's that don't pay high returns. He'll likely have to make

more if he decides to set \$40,000 a year as his after-tax income goal. Since Bill prefers conservative investments, Diamond suggests he put some of his money in products like segregated funds or linked notes, both of which guarantee principal over a fixed period. Such products, however, can come with high fees and limits on return.

If Bill prefers the security of GIC's, he could work part-time, perhaps until age 60. This would strengthen his finances and would also ease the transition into retirement. "Most people have a hard time moving abruptly from working to not working," notes Diamond. Even Bill may find that his weekend getaway is less fun when there's nothing to get away from.