**A reality check for millennial couple’s ambitious retirement goals**

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Three years ago, Andy and his wife Angela – both engineers – “moved to this wonderful country under the federal skills program,” Andy writes in an e-mail. He is 35, she is 32. Together they earn $163,000 a year. They are expecting their first child in a few months.

They try to live within their means, saving more than 15 per cent of their net income each month, Andy adds. But they are impatient for their savings to grow.

“What we don’t know is how to leverage ourselves and how to make the maximum of the golden years of our careers,” Andy writes. Their friends and colleagues have the same problem. “What worked for our parents doesn’t seem to work for us. We live in an environment where houses cost a fortune and the interest rate on a savings account is 1.8 per cent.”

The couple’s goals are ambitious: to generate enough investment income so they can reduce their workweek in their mid-50s without compromising their lifestyle and retire at the age of 60 with $120,000 a year, after tax. In the meantime, they need to prepare financially for the drop in income during Angela’s maternity leave and child-care costs when she returns to work.

Earlier this year, they borrowed against their Greater Toronto Area house to buy a second place, which they are renting out at a loss. “Should we sell our investment property?” Andy asks. What money they had left they invested in a syndicated mortgage – where a group of investors pool resources to finance a single mortgage, usually for a commercial project.

We asked Marc Henein, an investment adviser and certified financial planner at Scotia Wealth Management, to look at Andy and Angela’s situation.

What the expert says

First, the money-losing townhouse, which they bought in January for $440,000 using their home equity and cash.

“With the euphoric real estate market behind us for the time being, significant price appreciation is likely not in the cards,” Mr. Henein says. The property could rise modestly in value over five or 10 years. But it is costing them $28,000 a year against rental income of $19,800.

“Given that Angela’s income is about to be cut while she is on maternity leave, they simply cannot afford to carry a rental property that costs them $8,200 a year,” the planner says. If they can recover their investment, they should consider selling.

Their principal residence is estimated at $700,000 with a mortgage for $419,000 amortized over 25 years. Their goal is to halve it in 10 years. At the current rate of $1,676 a month, the mortgage will be about $320,000 by that time, Mr. Henein estimates. Paying it off more quickly may not be realistic because of the cost of raising children, especially if Andy and Angela have more than one. As it is, they are on track to be mortgage-free by the time Andy turns 60.

Andy and Angela do not have work pensions and are wondering if they can retire when Andy is 60, which would be 2042. Their retirement spending goal is today’s equivalent of $120,000 a year. Assuming an inflation rate of 2 per cent, $120,000 of 2017 dollars will be $196,870 by 2042. At the age of 65, with inflation, they will get about $52,500 in Canada Pension Plan and Old Age Security benefits. The balance of $144,370 would need to come from their retirement savings.

Currently, they have $56,000 in tax-free savings accounts, $7,000 in registered retirement savings plans and $78,000 in a private syndicated mortgage held in a joint, non-registered account. Also, Andy will be able to bring $90,000 over to Canada from his previous work in another country. They are saving $917 a month to their TFSAs and $950 to a savings account.

“I would be hesitant to invest such a high percentage of their wealth in a private, syndicated mortgage,” Mr. Henein says.

Syndicated mortgages are risky because the project could be delayed or the project manager could run out of money, he notes. Investors could potentially be locked into the investment for longer than anticipated or face a loss of capital. “If the risk-free rate of return is a bank GIC paying 1.5 to 2 per cent and this pays 8 per cent, then we have to accept there is a significant risk here,” Mr. Henein says. As well, the mortgages must be held to maturity.

“Some diversification would help protect them from potential challenges facing the housing market.”

To fund their retirement goal, the couple would need a portfolio worth about $2.91-million by the time they retire, which they could draw down at a rate of 5 per cent a year, the planner says. To achieve that, they would need to nearly double their savings.

“When we add Andy’s $90,000 to the money already in Canada, they currently have $230,000 saved for retirement,” the planner says. They would have to save a total of $45,000 a year for the next 25 years at an average return of 5 per cent a year. Increasing their savings by that much “is simply not an option for the foreseeable future,” he says.

If they are firm about their retirement spending goal, Andy might want to look for a higher-paying job or consider retiring later. A simpler approach would be to reconsider the $120,000 target. By the time Andy is 60, the mortgage will be paid off and the children will be out on their own. Remove mortgage, savings and the rental loss from their current monthly outlays and they are spending about $64,000 a year after tax, so there is plenty of room to lower their expectations.

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**The people:** Andy, 35, and Angela, 32

**The problem:** How to raise a family and still achieve their financial goals

**The plan:** Consider selling the rental property, diversifying their investments, getting higher-paying jobs or retiring later.

**The payoff:** Less likelihood of finding themselves squeezed financially in the short term and disappointed in the long term.

**Monthly net income:** $9,560

**Assets:** Bank accounts $26,035; syndicated mortgage $78,000; money outside country $90,000; his TFSA $28,500; her TFSA $28,500; his RRSP $3,500; her RRSP $3,500; residence $700,000; rental property $440,000. Total: $1.4-million

**Monthly outlays:** Mortgage $1,676; property tax $360; utilities $210; maintenance and reserve $200; home insurance $90; new vehicle fund $400; auto insurance $360; fuel $300; other transportation $220; groceries $750; clothing $200; appliance, home improvement fund $450; vacation, travel $450; dining, drinks, entertainment $480; personal care $130; other personal $200; life, disability insurance $380; cellphones, Internet $150; TFSAs $917; other savings $950; rental loss $685. Total: $9,558

**Liabilities:** Residence mortgage $419,000; rental mortgage $440,000. Total: $859,000