How Much Will I Need in Retirement

Retirement represents a new phase in your life that has emotional and financial implications. The first step towards financial preparedness for retirement is to determine the amount of retirement income you will need.

Conventional wisdom which suggested that you replace 60 – 70% of your pre-retirement income is now largely replaced by the realization that there is no infallible benchmark: how much you need in retirement depends on a number of factors, discussed below.

Retirement Lifestyle

This is probably the most important determinant of the amount of income you require. Ask yourself these questions:

Where will you be living?

Will you be staying in your current home? Or are you contemplating downsizing to a smaller residence to increase your retirement nest egg? Is moving from a big city to a less expensive part of the country in the cards? Are you hoping to spend part of the year in warmer climates?

What activities will you pursue?

Do you envisage travelling a lot or taking up new hobbies? What will be the estimated price tag be?

Do you plan on becoming a "working retiree"?

Today's retirees are more youthful and enjoy better health than ever, and some have decided to keep working for a few more years after retirement to fulfill social and emotional needs. The decision to work part-time may also have a positive impact on your retirement income calculation.

Costs that change as you retire

Personal spending pattern

Once retired, you will likely be spending less on clothing and transportation. You may also no longer have a mortgage. On the other hand, you may be taking up new hobbies and activities and incur more entertainment and travelling expenses.

Taxation

Your tax bill will likely go down when you retire. Moving to a smaller dwelling may also mean a diminished property tax bill.

Depending on your retirement income sources, you may be able to take greater control over planning your taxes. Thus, if your income sources include registered Retirement Savings Plans (RSPs), tax-free savings accounts and non-registered investments, planning your withdrawals wisely can have significant impact on your taxes.

Contributions to pensions and savings plans

Pre-retirement expenses associated with contributions to public pension plans, employment insurance, employer pension plans and retirement savings (e.g. RSP), will be eliminated. In fact, rather than saving, you now have the ability to draw on these income sources.

Health coverage

Your medical and dental costs could increase if you are no longer covered by an employee plan.

Family Situation

People are living longer today, and many retired people have to take care of their elderly parents. At the same time, this "sandwich generation" may still be providing financial support to their children, as young people stay in school longer and tuition costs skyrocket. This dual responsibility may translate into unforeseen costs in retirement.

Other Factors

Are you retiring early?

The earlier you retire, the more money you will need, not only because your income sources must cover a longer retirement period, but also because your savings period is curtailed.

The amount of retirement benefit you will receive from CPP / QPP may also be impacted, especially if you also decide to start receiving those benefits earlier.

Members of registered pension plans who retire earlier will typically receive a smaller pension income, as a result of the fewer years of service accumulated and potential early retirement penalties.

Inflation

Last but certainly not least, don't forget to factor in the rising cost of living. For example, if your estimated after-tax retirement income need is $50,000 a year, an annual inflation rate of 2% will mean that you need over $90,000 in 30 years' time!

To ensure the financial success of your retirement, start now to develop a retirement plan! For more assistance, contact your TD Waterhouse advisor.

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