Assante WEALTH MANAGEMENT

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You Don't Know Jack; How much Income do you need in Retirement?

A common question people ask about retirement income planning is how much do they need to live on? They want to know if the rule of thumb of 70% of your pre-retirement income is what they need to live on, and also what other people are living on?

The answer is there are" no rules of thumb" for a retirement income target, as it is very specific to each individual or family. How much you need or want in retirement is dependent on where you live and how you want to spend your time.

The general idea for many people is they want to maintain the same lifestyle as when working. A key difference is that when you are retired you may or will not have the same expenses as you do today. For example, you will not be making RRSP contributions, or paying off your mortgage (ideally), and if you still have young kids, when retired you would no longer have kids expenses (hopefully), and other assorted expenses, when you have stopped working.

A good way to break down your projected retirement expenses is in the following categories;

- Day to Day living expenses; this would be your normal daily living expenses.
    a. If you are working today, you would simply take off the expenses you would no longer have once you stop working, such as savings for retirement, mortgage and debt payments. Expenses for your children such as food, hockey, and education savings.
    b. You would keep all the day to day expenses to live, such as auto expenses, real estate taxes, food, hydro, gym expenses etc.

- Fun or Choices Money: these are items that may be found on what you want to do with your time.
    a. This is very specific to each individual or family. It can make a big difference if your goal is to travel the world bird watching, or writing a novel. These are specific items that you may wish to accomplish or do from your own bucket list, such as travel, golfing, surfing, and travelling the world with your band.
    b. Many people plan to spend more in the first 10-15 years of retirement on these items, as they tend to be healthier and are able to do more things.

- Replacement Costs; these are ongoing costs that are not part of your annual budget, such as a new roof, furnace and new cars every certain number of years.

- Contingencies: These are funds for emergencies or contingencies that come up, such as helping your grandkids with education funds.

- Legacy Costs; This would be any funding that you have for donations or life insurance to donated to charity in the future, or to create a larger projected estate for your children. (or to pay estate fees)

- Health Care Costs; These cost would include out of province/country health insurance, personal health plans as well as the potential costs for extra care when you get older, or the cost of a Long Term Care Facility and/or the insurance premiums to fund such costs.

If you do the above exercise, then you (your advisor) will be able to figure out how much you will need to accumulate and by what date. . The above calculations are important to do several years before retirement, as this will help you to make sure you have accumulated enough assets.
I would suggest that you go through the exercise yourself to determine your "ideal" retirement spending target. What I have found, is that people spend less on themselves than they think, but require more capital than they realize to fund a 30 plus year retirement.
