How much do you have? And how much do you need?

HAVING ENOUGH TO RETIRE THE WAY YOU WANT

Many of us have a couple of goals when saving for retirement:

1. Having enough to live and enjoy life, and

2. Leaving a legacy, perhaps to our families or favourite charities.

But few of us realize how much the quality of life we live in the future depends on what we contribute in the present.

Try to match the retirement picture in your head with what your savings are telling you. Don't want to go there? You're not alone. Many people avoid linking dollars and retirement in the same thought – retirement may seem too far off, or the financial realities are just too stressful.

Take Ray and Sarah. They don't spend a lot of time or effort on their retirement finances. Both are in their early 40s, and earning a good income. They are making enough to save for their kids' university, and hopefully pay off the house in the next five years. Although they live well today, they want to ensure they will live well tomorrow.

With retirement still about 20 years off, Ray and Sarah thought that with the money they were making, maintaining their lifestyle in retirement would be a breeze. By then, the kids would be self-sufficient and mortgage payments would be a thing of the past. And they felt comfortable about their future finances, as they had been contributing to their RRSPs for about 15 years already.

One night Ray and Sarah went to a retirement party for Stephen, one of Ray's colleagues at work. Stephen was 59, retiring, and eagerly anticipating it. Stephen's wife, Dorothy, was excited about the exotic places she wanted to go and experience. And Stephen couldn't wait to hit the high seas in the new boat he was going to buy.

Driving home after the party Ray and Sarah were infused by Stephen and Dorothy's sense of excitement. They talked about their own retirement and agreed, once again, to enjoy their retirement years to the fullest.

Six months after Stephen's retirement party, Ray was surprised to see his friend walk into the office bright and early one Monday morning. Assuming Stephen was just visiting his former co-workers, Ray was shocked to learn that Stephen had come back to work full time.

Stephen explained that the lifestyle he and Dorothy had envisioned for themselves was not attainable with the money they had put away. So they had both decided to go back to work for a few more years.

When Ray got home that night, he told Sarah of Stephen and Dorothy's plight. Ray and Sarah then called their advisor to make an appointment, and started to do some research into how much money they would actually need to retire the way they wanted.

CHOOSING A RETIREMENT LIFESTYLE

What Ray and Sarah found out is that the most important factor in determining how much money they would need to retire comfortably is the lifestyle they chose. Would they want to work part time, pursue a hobby, volunteer, or travel frequently? Every choice of activity could either add to, or take away from their savings.

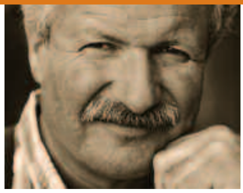
When thinking about your own retirement, do you see yourself living moderately, comfortably, or well? These general categories can be used as guidelines in determining the type of lifestyle you want to live.

Moderately =	60 – 70% of your pre-retirement income required in retirement
Comfortably =	70 – 85% of your pre-retirement income required in retirement
Well =	85 – 100% of your pre-retirement income required in retirement

Percentages shown above are suggested guidelines only

The next step is to consider all your sources of income and expenses.

The most common way that most of us plan for retirement is by determining how much money we'll need. But how much you need is determined by how you want to live.


BUT WON'T THE GOVERNMENT HELP ME?

Yes, government benefits will contribute to your retirement income. The amount of benefits you receive is based on your income, and they are fully indexed to inflation. But it's important to understand how these benefits fit into your plan.

CANADA PENSION PLAN (CPP)

For those who:

- Have been in paid employment
- Have made at least one payment into the CPP plan

The plan's payments are:

- Based on how much, and for how long, you contributed to the plan
- Designed to replace about 25 per cent of the earnings on which you paid into the plan

You must apply to receive CPP benefits. Today, the maximum CPP income at age 65 is $863.75 per month, or $10,365. per year.[1]

For more information on the CPP visit www.hrsdc.gc.ca

OLD AGE SECURITY (OAS)

For those who:

- Are 65 or older, whether or not you have held paid employment. You must apply for the pension and meet the residence requirements

The plan's payments are:

- Taxable (you pay both federal and provincial income tax)
- Subject to clawbacks – Higher-income pensioners also repay part or all of their benefit through the OAS clawback, which currently starts at $63,511

Currently, the maximum benefit is $491.93 [1] per month.

THE GUARANTEED INCOME SUPPLEMENT (GIS)

For those who:

- Reside in Canada
- Receive an OAS pension and who have little or no other income

The plan's payments are:

- Based on your annual income – The amount of monthly payments may increase or decrease according to reported changes in your annual income
- Subject to reapplication every year by filing an income tax return
- Not subject to income tax
- Dependent on you receiving the OAS pension – The combined income of you and your spouse cannot exceed certain limits

Currently the maximum GIS benefit is $620.91[1] per month for a single person and $410.04[1] for the spouse of a pensioner.

For more information on the OAS and GIC visit www.hrsdc.gc.ca

SPOUSE'S ALLOWANCE

For those who:

- Are low-income earners between the ages of 60 to 64 if still married
- Have a spouse or common-law partner who is entitled to receive OAS and GIS benefits

The plan's payments are:

- Replaced by the OAS after age 64

WIDOW'S SPOUSE'S ALLOWANCE

For those who:

- Are low-income earners between the ages of 60 to 64
- Whose spouse or common-law partner is deceased

The plan's payments are:

- Replaced by the OAS after age 64

EFFECTS OF CLAWBACKS ON INCOME

The importance of government benefits varies among retirees. One reason is that the contribution of government benefits toward an adequate retirement income declines as income rises. This is the effect of clawbacks – the reduction of benefits based on income.

We can see from the numbers that government benefits will not provide adequate levels of retirement income. You will need to invest in RRSPs, pension plans or non-registered investments to ensure a safe and happy retirement.

THE EFFECTS OF INFLATION

The most insidious force that can eat away at your savings is inflation. You can expect this to rise every year. You may begin retirement thinking that everything is fine, only to run out of money later due to increased costs of living. Since, historically, inflation has averaged three per cent per year, plan to have your income increase by about three per cent per year during your retirement. Let's take another look at Ray and Sarah 20 years later when approaching retirement.

Ray and Sarah have lived a good life. They both work and have a combined income of $140,000. They want to continue to live well through retirement enjoying both their family and their several hobbies. Ten years ago, they managed to pay off their mortgage.

The chart on the next page illustrates what Ray and Sarah's expenses would be if they were to retire today and what the same items would cost 20 years from now due to inflation.



RAY AND SARAH'S RETIREMENT EXPENSES

	2007 (present day)	2027 (in 20 years)
Housing Maintenance and Repair	$ 400	$ 722
Food	$ 600	$ 1,084
Clothing	$ 400	$ 722
Household Goods and Services (e.g. utilities)	$ 700	$ 1,264
Transportation	$ 700	$ 1,264
Leisure	$ 800	$ 1,445
Personal Care	$ 200	$ 361
Non-insured Medical Expenses	$ 300	$ 542
Gifts	$ 300	$ 542
Communications (telephone/Internet)	$ 180	$ 325
Dining out	$ 300	$ 542
Charity	$ 150	$ 271
Life Insurance	$ 300	$ 542
Health Insurance	$ 200	$ 361
Home Insurance	$ 100	$ 181
Property Tax	$ 400	$ 722
Grandchildren Funds (RESP)	$ 200	$ 361
Total per month	**$ 6,230**	**$ 11,252**
Total per year	**$ 74,760**	**$ 135,025**

Assumptions: The above example assumes a 3% annual inflation rate. The numbers are estimates only and are in no way intended to be conclusive. For illustration purposes only.

You can see that the costs in 20 years almost double. When calculating your projected expenses in retirement, it is important to adjust your numbers to incorporate the effects of inflation.

AND THAT'S NOT ALL . . .

Inflation may be the first in line to take a bite out of your savings, but there are others waiting their turn. Consider:

Lack of company health benefits — When you finish working, your company benefits may no longer pay for your prescription medications, new eyeglasses, or the dentist. Medical expenses can turn into a major expense, especially as you get older and require more health care.

Retirement homes — As we get older, many of us will need in-home nursing care, or will need to reside in retirement and nursing homes for a period of time. The expenses of these types of health care are staggering.

TYPICAL HOME CARE COSTS:

- Registered or auxiliary nurse, $30 to $38 per hour[2]
- Medical services aid, $14 to $19 per hour[2]

TYPICAL LONG-TERM-CARE FACILITY CARE COSTS:

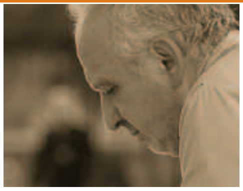
For certified facilities with government subsidies:[3]

- A private facility may cost $2,000 per month
- Semi-private may cost $1,750 per month
- Ward facility may cost $1,500 per month

No more company expense accounts — What's going to happen to your savings when you retire and your employer no longer picks up the tab for your meals, entertainment, travel and accommodation costs? Many of us have gotten used to these perks. To put things into perspective, company expense accounts can account for a large percentage of your pre-retirement income.

No more company stock options and RRSP contributions — Most companies offer their employees a share incentive program and group RRSP plan where they'll match your contributions to a certain level. If you decide to retire at 55, you'll have to sock away a lot more money to make up for those lost contributions.

Retirement leisure activities — Practically every retirement activity will cost you. Unless you plan to spend your retirement at home, you'd be wise to take

these costs into consideration when determining the true cost of your retirement.

DETERMINING HOW MUCH YOU WILL NEED

There are many ways you can calculate how much income you will need in retirement, below are two examples. As we mentioned earlier, choosing a retirement lifestyle is just the first step.

1) Income Replacement Ratio method

The income replacement ratio is the percentage of working income that you'll need to maintain the same standard of living in retirement, usually 60 – 100 per cent.

The income replacement ratio method simply calculates how much of your pre-retirement income you will need in retirement. To figure this out, start with your current income, subtract what you pay in taxes and investing income. Then multiply by the income replacement ratio that corresponds with your current lifestyle.

Current Income **—** Taxes and investment income **x** Income replacement ratio **=** Retirement income requiered (after tax)

For example, let's say you have a total annual income of $100,000. You pay $30,000 in taxes and contribute $5,000 every year into RRSPs. Using the first half of the simple formula stated above, you would end up with $65,000.

Then, adjust for expenses that will be different in retirement by using the income replacement ratio that corresponds with the lifestyle you choose. For a comfortable lifestyle, let's choose 70 per cent.

Your required retirement income would be $45,500, after tax.

2) Tracking cash flow

Tracking cash flow is a more detailed examination of not only how much you spend, but where you spend it. This method is extremely useful the closer you get to retirement.

You may want to categorize your expenses (home, financial, medical, etc.) but the important thing is that you understand where you spend your money. That way you know exactly how much is going towards your mortgage and children now, and will be able to more accurately adjust for other expenses such as health care and leisure activities, which could be higher in retirement.



WealthStyles®

LIVE THE RETIREMENT YOU WANT

With all of the information you now have, it may seem a daunting task just to keep a roof over your head once you retire. But the picture is not all that grim. There are things you can do right now to help live the retirement you want.

Planning — Don't get stuck at 55 without a plan. Make decisions and act on them today to ensure tomorrow. The earlier you start the better.

Take advantage of RRSPs — Retirement savings plans are one of the most effective methods to save for your future. If you start early, contribute regularly and maximize your contributions, you'll be a giant step ahead in the game.

Consider other sources — Take your whole financial picture into account. You probably have a few other sources of income, such as non-registered investments and real estate holdings, which will ease the financial burden in retirement.

Talk to your advisor — Your advisor is your resource for a wealth of valuable information. He/she can give you the advice you need to capitalize on all your sources of income most effectively.

1 As of January 2007.
2 These costs will vary from province to province.
Source: Victorian Order of Nurses
3 These numbers are approximations. Costs do vary from province to province.

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