

How much is enough?

Will you have enough to retire? It depends.

As a general rule of thumb, many retirement planning experts say you need to replace about 50-70 per cent of your pre-retirement income. But you may need more or less than that. It depends on a number of factors, such as when you retire, your retirement lifestyle, life expectancy, inflation, and how much income your savings generate.

The good news is that many of your current expenses will likely shrink once you stop working. You probably won't be spending as much on work clothes, commuting costs, lunches, and union or professional dues. You also won't need to save for retirement anymore.

If you're an empty-nester, you may decide to "downsize" and move to a smaller house – possibly freeing up money and lowering your home maintenance fees.

At the same time, some new costs could surface. You may want to travel more or take up new hobbies. Your healthcare and dental costs might go up as you get older. In addition, you may find that you need to hire people to look after some of the household chores – such as lawn care or painting.

The inflation factor

It's also important to factor inflation into your calculations. By inflation, we mean the overall increase in the cost of living caused by a rise in prices. Over the past two decades, we've experienced inflation averaging about two per cent per year.⁵

Inflation can have a devastating effect on your retirement income. Inflation of just two per cent compounded over 20 years would erode the buying power of your retirement income by about one half. Life expectancy is another key factor to

consider. Canadians are living longer. According to recent Statistics Canada data, the average male who is age 65 lives to age 82, while the average female who is age 65 lives to almost 86.⁶ These are averages and 50 per cent of people who are age 65 will live longer.

Nailing it down

Your best bet is to sit down and draw up a detailed budget of what you think your post-retirement expenses will be. The best way to do that is to track your expenses for an entire year to find out where your money goes.

If worst comes to worst and you think you might be short of money, you may work part-time or downsize your home. Alternatively, if you own your own home – you may want to consider a reverse mortgage. This is simply an arrangement that allows you to draw on the equity you've built in your home.

In any event, you'll want to closely monitor how much you withdraw from your retirement savings once you retire. Taking too much too early can leave you short down the road. You want to try to have your money last at least 10 minutes longer than you do.

When it comes to calculating whether you'll have enough in retirement, be conservative. It's better to end up with too much money than too little. You don't want your retirement years to be anything but golden

⁵ TD economists

⁶ Statistics Canada