

## How Much Money Do You Really Need for Retirement?

### You May Not Like the Answer

The title of this article seems to be the most sought after answer for people who are either saving for their retirement or are actually in their retirement. Obviously, it is a very important question—you spend a lot of years working and saving to hopefully achieve your retirement dreams.

Getting to the answer to the question is not as easy or straightforward as you might think. This means that constant planning and review is necessary to make sure you have done the best job possible to answer that question for yourself.

The short answer to the question is, (and you are not going to like to hear this), but, it depends!!! If you have had anyone that claims that there is a definite answer to this question, be highly suspect of the advice that you have received.

There are a number of factors that will affect how much money you need for retirement:

*When do you want to retire?* Obviously, the earlier you want to retire, the more money you will need. If you want to retire at age 60 and we assume you started working at age 20 and that you will live until age 90, it means that you have 40 years of working to save enough money to provide you with income for 30 years of retirement—no small feat to accomplish!!

*What do you want your lifestyle to be?* Just as important as the length of time you will be in retirement is what do you want your lifestyle to be—what will your expenses be? Be careful not to underestimate them!!

*Don't forget about the effects of investment returns, taxes and inflation.* These two variables will have a big effect on how much money you need to save. The higher your investment returns, the less money you need to save. However, for most people, when you get to retirement, you become more conservative in your investment decisions because you are reliant on your investment returns to generate income. This usually means that returns are lower than they may have been previously, which over the long term means you need more money. Everyone is familiar with inflation and the effect that increasing prices will have on their lifestyle—if you don't take this into account, you will may come up short achieving your lifestyle objectives. And obviously taxes will greatly affect where you ultimately end up.

*What is your marital status?* A single person that makes \$50,000 per year will end up with less money after tax than a married couple who each make \$25,000 per year. Granted, you may argue that a married couple will have more expenses because there are two people versus one, but your marital status can affect other sources of income due to such issues as OAS clawback.

To illustrate the effect that these variables can have on the answer to the question of How Much Money do You Need?, consider the following:

If an individual has a \$500,000 portfolio and a \$500,000 RSP. Inflation is 3%. Their average tax rate is 35%. The two variables we will change will be their expenses and their investment return. The chart below shows the number of years that their money will last using these assumptions.

<b>Expenses</b>	<i>Investment Returns</i>	<i>6%</i>	<i>8%</i>
<b>\$40,000/yr</b>		<i>23</i>	<i>34</i>
<b>\$50,000/yr</b>		<i>17</i>	<i>22</i>

What this means is that if you retired at age 55, your money would last anywhere from age 71 to 88, depending upon the variables noted above. Alternatively, if you retired at age 60, your money would last anywhere from age 76 to 93.

After having changed only a couple of assumptions, you can see the dramatic effect on the length of time the money will last—obviously the amount of money you need is dependent on a number of factors

Your ScotiaMcLeod Advisor can help you determine how much money you need to save to reach your retirement goals and objectives. Make sure you talk to them.