

Financial Post

Personal Finance / Wealthy Boomer

How much do you need to retire?



Do all those Baby Boomers with dreams of a cushy retirement dancing in their heads have enough money to maintain their standard of living once they leave the workforce?

foto1ia

Jonathan Chevreau, Financial Post · Dec. 23, 2010 | Last Updated: Jan. 3, 2011 10:30 AM ET

Do all those Baby Boomers with dreams of a cushy retirement dancing in their heads have enough money to maintain their standard of living once they leave the workforce?

To find out if they are on track for a stable retirement, we turned to Vancouver-based Diane McCurdy, a certified financial planner and author of *How Much is Enough?*

We started with a few assumptions, notably that two people were sharing in the wealth. Then we divided retirees into four groups. We looked first at the bare-bones minimum it would take a senior couple to survive in a city, then to the other extreme: middle-class couples fortunate enough to have at least one defined-benefit company pension plan. Then we looked at couples with similar aspirations but who lack such employer pensions. As you'll see, they have a tougher row to hoe: They'll need to save at least \$1-million if they hope to have a lifestyle comparable to what they enjoyed while working. Finally, we looked at the kind of lifestyle a similarly pensionless couple could enjoy if they could save \$2-million.

To crunch the numbers, we turned to financial planner Jim Otar, author of *Unveiling the Retirement Myth*. A version can be downloaded free until Jan. 10 at www.retirementoptimizer.com.

Case 1: Bare-bones, 'ultrafrugal' existence

Just for a couple to survive in a Canadian city, McCurdy figures on \$2,500 a month pre-tax or \$30,000 a year as the bare-minimum income. The big nut is housing. You either must rent from \$800 to \$1,500 a month or if you own your home (even after paying off the mortgage), you'll pay the equivalent of rent in property taxes and/or condo maintenance fees, plus homeowner insurance. So \$800 a month is a rock-bottom figure for renters. Homeowners should pencil in at least \$1,000 a month.

That leaves only \$1,500 to \$1,700 to cover everything else from taxes to food and utilities and entertainment. This is an ultrafrugal "cable TV and library books" lifestyle without car ownership, vacations or much dining out.

A senior couple aspiring to this bare-bones lifestyle can get about two-thirds of the required income simply by reaching 65 and

drawing Old Age Security and the Canada Pension Plan (or GIS for those with little CPP).

But even here there's still an annual \$10,000 shortfall, which Otter says can be generated by renting out a portion of a home or vacation property or by working part-time. If the shortfall is to be filled by savings, you would need \$266,000 in a life annuity or a \$300,000 investment portfolio. The latter assumes balanced portfolios and depending on vehicles chosen and asset-mix, requires capital ranging from \$276,000 to \$339,000.

Case 2: Pensions away!

When at least one member of a couple has a traditional employer-provided DB pension, the stress meter drops, especially if it's indexed to inflation. If both spouses earned \$75,000 in their working years, we'll assume they can be comfortable with pre-tax income in retirement of \$6,000 a month or \$72,000 a year — since in this scenario their mortgage is gone, the kids have left the nest and they no longer have to save for retirement.

If both have employer pensions, it's a slam dunk. "They don't have to save any additional money, not for retirement anyway," Otter says. Even if only one spouse has a pension, new pension-splitting rules put more after-tax income in their collective hands. Depending on years of service, such couples may not even have to wait till 65, but might take early retirement as early as 55. But as financial educator Talbot Stevens observes, even the well-pensioned may want to put aside a few hundred thousand for "peace of mind" to cover emergencies and future health-care problems.

Case 3: Pensionless in the city

A couple with the same expectations as Case 2 has a considerably harder row to hoe if they lack employer pensions. Such private-sector middle-income workers are at the centre of pension-reform debates. They will have to save a bundle — \$1-million or more — just to enjoy the kind of retirement income the well-pensioned get without saving a penny. (Of course, the well-pensioned were in effect forced to save all along through automatic payroll deductions.) If they can wait till 65, most couples will get about \$2,800 a month from maximum CPP and OAS. That leaves \$3,200 a month to come from savings: RRSPs, TFSAs and non-registered investments. If you invest conservatively in a 3% GIC, McCurdy says it would take \$1.28-million to generate the annual income shortfall, without breaking into capital (not factoring in inflation).

The capital can be less if you invest in stocks yielding 5% but based on the rule of thumb that equity exposure should be 100 minus your age, a 65-year-old would have only 35% in equities. In that case, McCurdy estimates only \$1.04-million would be needed. Factoring in annual inflation of 2% or 3%, she would be more comfortable with \$1.5-million. This is in line with estimates by Adrian Mastracci, president of Vancouver-based KCM Wealth Management Inc., who says required capital will range from \$1.1-million to \$1.5-million, depending on how much variability investors are willing to tolerate. He assumes 2% inflation and 6% returns.

Assuming the money must last 31 years from 65 and 96, Otter says you would need a life annuity of \$1.07-million to fund this shortfall, or an investment portfolio between \$1.06-million and \$1.3-million. Because of higher fees, mutual fund portfolios must be larger than low-cost portfolios of ETFs or individual securities.

If you're the landlord type or can't sit still, you can get by with less if you rent out a part of your home or vacation property or get a part-time job.

Case 4: Living large

Some readers will want a more lavish retirement than \$72,000 a year provides, particularly if they have a taste for luxury and travel. As in Case 2, without employer pensions, this means saving a lot. Otter estimates \$2-million invested in a mix of registered and taxable investments generates pre-tax income of \$100,000 to \$106,000 a year if invested in ETFs, or \$84,000 to \$90,000 if in mutual funds, (not indexed to inflation). A \$2-million joint and survivor life annuity generates \$113,000 if not indexed and \$74,000 if indexed.

This income is on top of CPP and OAS, so would generate a grand total of between \$130,000 and \$146,000 a year, depending how much OAS got clawed back. That will happen if most of the money is in one person's RRIF. If split between two smaller RRIFs, or if more of the nest egg is non-registered, the clawback will be less.

The \$2-million target is in line with an estimate from Mint.com founder Aaron Patzer that the average Canadian will require \$2-million to \$4-million in assets at retirement, including the value of their homes. People generally need 80% to 90% of their working incomes in retirement, Patzer said. Investors should assume a 1% to 2% average annual real growth rate until their target retirement age. If they stay invested they may need only 20 times their last year's salary on the day they retire in order to make ends meet for 30 years. "If you're counting on CPP or OAS you'll need roughly 15 times."

All these numbers are ball-park figures because there are so many variables, such as medical costs, inflation, stock markets, interest

rates and individual spending patterns. ©

A definitive answer requires using customized Web-based retirement calculators (there are many) and the aid of a competent financial advisor.

Financial Post

jchevreau@nationalpost.com

[Get the National Post newspaper delivered to your home](#)

2011 National Post, a division of Postmedia Network Inc. All rights reserved. Unauthorized distribution, transmission or republication strictly prohibited.