

## Brad Brain: How much should I be saving?

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Smart Money



Brad Brain: "One day you are going to want to, or you are going to need to, stop working. But I can assure you that when that day comes, you will still want to do things that cost money."

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From time to time people ask me what other people are doing with their money. They are not creeping. They just want to know how they are measuring up.

I get where they are coming from, but this is not actually the best way to plan your finances. You have your own goals and resources and risk tolerance and family circumstances, so what is right for another person is not necessarily what is right for you.

That being said, I think that there is some utility to be had by having a conversation about how much you might expect to spend in order to reach your financial objectives.

I understand that you have a lot of stuff that you want to do right now, and all that stuff costs money. Trust me, I get that. I just dropped a bunch of money myself this week on things I want to do with my kids.

The thing is, one day you are going to want to, or you are going to need to, stop working. But I can assure you that when that day comes, you will still want to do things that cost money.

The question is then, where is the money going to come from after you stop working?

To prepare for the future, let's start the conversation with saving 10% of your income for future consumption. In other words, if you are making \$100,000 a year, you should be thinking about saving \$10,000 a year.

Now some people are going to say, "I can't do that!" But let's talk about what that means for a moment. Because if you are making \$100k a year I can assure you that you will not be able to maintain that lifestyle on what you get from the Canada Pension Plan. So the implication of not saving now is that you will have a severe drop in your standard of living down the road.

Is that what you really want?

I know that level of savings may sound unrealistic, but trust me on this. For most people, living on 90% of your income will not be that different than spending it all. You will, however, inevitably notice a difference in your standard of living if you spend 100% of your income now and save nothing for the future.

Achieving your objectives in life is what financial planning is all about, but unfortunately not everyone will get to live that long, happy, healthy life. Bad things happen to people, and their can be catastrophic financial consequences of a serious illness or premature death.

A solid income protection plan will look at life insurance, disability insurance, and critical illness insurance. To get high quality coverage in all three of these vitally important areas might cost you 5% of your income.

Again people might say, "I can't afford that!" But let's talk about what that means for a moment. To forgo a comprehensive income protection plan means that if something bad happens, you are without recourse. If you cannot work because you are hurt or sick or killed, where is the money going to come from?

So, you want to know what other people are doing? Let's start with this. Save 10% of your income for the future and put 5% of your income towards protection. Now you can go ahead and do what you want with the other 85% of your income. You have the peace of mind of knowing that you are both working towards your long-term dreams and you are covered from the financial impact of a catastrophic change in health.

Remember, these are just some ballpark numbers for discussion purposes. To see what you should be specifically be doing in order to achieve your objectives, speak with a professional financial planner.

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