

Smart Money: Do you have enough to retire?

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Brad Brain: "Whether or not you actually need a million bucks to retire, I think the principle behind the message is worth heeding, and that is retirement is going to last longer and cost more than you expect." | Getty Images



A recent study by Aon found that the average Canadian needs to accumulate 10.9 times their final pay to maintain their income in retirement. In other words, if you are making \$100,000 when you retire, you are going to need \$1,090,000 in savings going into retirement or you risk running out of money in your lifetime.

The problem is, most Canadians are nowhere near doing what it takes to accomplish this.

On average, Canadians would have to save 16% of their annual pay in employer-sponsored and their own personal savings plans, every year, from age 25 to meet this target. While some people are planning ahead, in general this level of savings is just not happening.

This means that the people who are not saving now are probably in for a nasty shock. The study found that, on average, Canadians would have to delay their retirement to age 70 in order to maintain their spending. Alternatively, they would have to lower their standard of living by 30 percent in retirement. Neither of these options are highly coveted.

So is that figure right? Do you really need a million bucks to retire?

Well, the answer is... it depends.

How much you need in retirement will depend on what you want your retirement lifestyle to be. I have some clients that do everything they want, and it doesn't cost that much. I have others who spend money like they are on vacation. And that can be a problem when you have a vacation that lasts 30 years.

How much you will need will depend on your longevity. Many people think of retirement as doing all the things on their bucket list. They look at retirement as the time to finally do all the things they have always wanted to do, but never had the time or resources to do before.

But retirement is more than a few trips in a motorhome. You are going to need funds for the basic necessities of life; housing, food, healthcare, and these expenses could be with you for decades. The longer you live, the more it costs. And people are living longer and longer.

How much you need will depend on inflation. We live in a rising cost world. Right now it costs roughly five bucks to buy a 4 litre jug of milk. But there will come a day when that same jug costs six bucks. Then seven. Then eight. The higher the rate of inflation, the more money you need to buy the same stuff. After a three-decade retirement in a rising cost world you won't even recognize your grocery bill anymore. Or your utility bill. Or your tax bill.

How much you need will depend on your health. The unfortunate part of aging is that things start to wear out, and that includes you. Most of the money that you will spend on healthcare in your lifetime will be in your senior years.

We are fortunate to live in a country with a strong social safety net. But that does not mean you get unlimited free health care. So, when your hearing goes, you can either say "What?????" a lot, or you can spend five grand. Because hearing aids are one of the many medical expenses that are not covered by the Medical Services Plan of BC.

So will you really need a million dollars to retire? Actually, with lifestyle, longevity, inflation, and health, you just might. One thing I can tell you from experience is that people really do not change their money personality once they hit retirement. If you are used to living a \$100,000 lifestyle its highly unlikely that you will suddenly be content with living a \$40,000 lifestyle.

If you do face a shortfall in retirement there are only four paths to choose from. You can delay your retirement. You can reduce your expectations for what retirement will look like. You can seek a better return from your investment assets. Or you can save more now. That's it. That's your choices.

Whether or not you actually need a million bucks to retire, I think the principle behind the message is worth heeding, and that is retirement is going to last longer and cost more than you expect.

So get ready. Because the sooner you start, the easier it will be.

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