

Calculating the magic number

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While dreams of retirement can seem very real on a mid-week afternoon in February, for most Canadians, thinking about how much money they'll need when the time actually arrives is an abstract exercise.

No question that preparing for the days when you're no longer punching the clock requires careful planning, and no question that for many RRSP holders the financial goal is vague.

"Unfortunately the vast majority of people don't have any idea where their money is going currently," says chartered accountant David Trahair of Toronto. "So it's impossible to predict what it's going to be like in the future, if you don't have a clue where the money is going today."

Consider the results of a recent poll by the Royal Bank of Canada, which found that more than 75 per cent of retirees surveyed couldn't say how much they had spent in their first year of retirement. Of those who did keep tabs, almost half - 46 per cent - said it was more than they had expected.

The survey indicated, moreover, that day-to-day living expenses ate up the biggest chunk of annual spending, at 58 per cent. But pre-retirees who were interviewed believed that such costs would amount to no more than 47 per cent of their annual budget.

For Lee Anne Davis, head of RBC's advanced retirement strategies in Toronto, the numbers aren't all that surprising.

"How many people do you know who make a budget? For most us, it's not a very interesting exercise, and if you do make one, it's often half-hearted and you don't really stick with it. So when you move into retirement, there's no reason to think that the habits you had in pre-retirement are going to change," she says.

What's more, financial advisers differ widely when it comes to the amount of money a person ought to have at retirement. At Edward Jones in Toronto, senior retirement

planning specialist Michelle Kay-Scott likes people to aim at having 70 to 90 per cent of their pre-retirement income.

Others say you may be fine with 40 per cent. Mr. Trahair says he knows someone who gets by with just 25 per cent.

"I like to say that everybody's personal financial situation is as individual as their fingerprints," he says. "So there is no, 'Well, the answer is 70 per cent, or 90, or whatever.' And that's the problem."

Indeed the variables are wide-ranging, and sometimes unpredictable. A break in your expenses - such as having your mortgage paid off and no kids to support - might be offset by having to provide financial help to elderly parents or unexpected home repairs. Health care is another issue: Costs might rise as you get older, but some people are blessed with a company pension that carries a health plan. And what if your car gives out, or you get the yen for travel?

Planning for these scenarios, however, doesn't need to turn your life into a permanent bookkeeping exercise. But you do need to take full stock of your money.

Mr. Trahair says the first step for a pre-retiree is to track, in detail, how much you are spending, and for what, over a period of at least a month, to see where your money is going now. "If they do that, usually the light comes on, because most people are spending more than they make now," he says. "So how can you possibly save for retirement if you're getting in the hole every month?"

While Ms. Davis agrees that "there is no magic number" for a nest egg, she says, "It comes down to understanding the lifestyle you lead today - and that's really understanding your income, your spending, but also how you're going to spend your time in retirement."

Ms. Kay-Scott believes that talking to an expert is the best way to explore what you'll need in retirement years, especially given the recessionary woes.

"It's a good opportunity to go back to a financial adviser - just like when we go to a doctor when we're unsure of things - and review your goals, where you are today and are you still on track to reaching them."

While Ms. Kay-Scott considers 70 per cent to 90 per cent of pre-retirement income a good range for retirement needs, she recognizes that many consumers might not reach that goal. "Some people might have to live on 40 per cent, or they won't need 70 per cent of income because their house is paid off. But to do a calculation and really understand it, I'd say, go find help to do this."

There are dozens of books to help Canadians plan for retirement, such as Mr. Trahair's *Smoke and Mirrors: Financial Myths That Will Ruin Your Retirement Dreams* (Self-Counsel Press, 2007).

Along with advice, it comes with a CD-ROM containing six spreadsheets in which pre-retirees can punch in their personal variables, such as age, income, when they want to retire, how much they are putting into their RRSP, its rate of return before and after retirement, eligibility for government old-age security and more.

"You answer all those questions and it will basically project what your income is going to be, every year from age 55 to age 95," Mr. Trahair explains.

You can find other similar types of retirement calculators online, such as one offered by Service Canada (www.hrsdc.gc.ca/eng/isp/common/cricinfo.shtml). Most banks and financial institutions also offer online nest-egg calculators that can provide some guidance.

"There are many sources of information, but in the end, it's great to have a relationship with a professional planner," Ms. Davis believes. "Your retirement isn't static, and things could change before you even get to retirement. A planner can help you navigate those changes and help you have a stress-free retirement."

Where the money goes

46%

Portion of retired Canadians who say they spent more in their first year of retirement than they had anticipated

12%

Portion who spent less than they had expected

39%

Portion of retirees who faced unexpected expenses, such as home and vehicle repairs and health-care costs

Source: Royal Bank of Canada RRSP Poll