

<http://www.theglobeandmail.com/globe-investor/personal-finance/ted-rechtshaffen/why-retirement-savings-targets-are-laughable/article1840712/>

Financial Planning

Why retirement savings targets are laughable

TED RECHTSHAFFEN

Special to Globe and Mail Update

Published Friday, Dec. 17, 2010 6:00AM - Last updated Friday, Dec. 17, 2010 12:54PM

As a financial planner, I try never to assume anything about people's financial situation. I find it is much better to ask them the question and try to get an accurate answer. This seems logical enough, but too many Canadians and financial "experts" would rather rely on the rule of thumb that often is accurate for only a small percentage of people.

For me, **the worst rule of thumb is that in retirement you need 70 per cent of your pre-retirement income.**

In fact, a 2007 study from Fidelity Investments entitled "The changing state of retirement in Canada," recommended a retirement income replacement rate of 80 per cent. What a bunch of nonsense!

If you want to know the answer that counts, you have to look at your own situation.

1) Forget about your income. **It is all about your expenses.** What do you spend today?

2) In reviewing your expenses, which ones will disappear when you retire? Will your debt expenses decrease or disappear? Will you still be covering the education and other expenses for your kids? Will you still be putting money away in RSPs and saving for retirement? Will certain expenses drop when you are no longer going to work?

3) Keep in mind that for most people, their lifestyle expenses will be much higher in their first year of retirement than in their 15th year. This is somewhat a factor of trying to do all the things you hoped and planned for now that you have a chance, and partially that with health issues, as retirees get older, they are often happy with simple pleasures rather than expensive ones.

4) Don't forget about government pension income: **For a Canadian couple who are maximizing CPP and Old Age Security, they will likely earn over \$31,000 a year**, indexed to inflation.

5) Are you planning to **downsize your home?** If you are taking money out of your home and investing it, it will generate a new source of income, taking pressure off of other savings.

6) Are you **likely to receive an inheritance?** For many people, this significantly changes their retirement savings requirements.

To read more about your real retirement expense and savings needs – and to completely rid your mind of the 70-per-cent or higher rule of thumb – check out a great study from Russell Investments Canada called "[Spending Patterns in Retirement.](#)" This provides a much more accurate look at real spending in retirement.

Follow us on Twitter: @globemoney
