

RETIREMENT PLANNING: HOW MUCH DO YOU NEED?

Worried about retirement? Specifically about the cost of retirement and whether you will have enough money? If so, you're not alone.

According to recent surveys, more than half of Canadians are concerned about their retirement savings and, for many, the pandemic has only made the situation worse.¹

Worrying Too Much?

Some studies have shown that perhaps we worry too much about our funds in retirement. One retirement expert estimated that a couple could live on around \$44,000 per year.² Government safety nets may help to supplement this amount if personal assets were exhausted. Many of us would dispute this assessment — and most would like retirement to go beyond subsistence! However, while the pandemic has created income issues for some, it has shown many of us how much discretionary spending could be reduced — though few would want retirement to mirror pandemic life.

If you are fortunate enough to have a defined-benefit pension plan at work, you will have at least some idea of your retirement income. However, as the world continues to change, these pension plans have become increasingly rare.

Registered Retirement Savings Plans (RRSPs) are typically the other major component of retirement savings for many Canadians. If you convert your RRSP to a Registered Retirement Income Fund (RRIF), you must eventually withdraw at least the prescribed minimum amount from the RRIF each year. How much can a RRIF provide? For an individual who prudently contributes to their RRIF over time, it may play a substantial role. The table shows the payments that would be received by the RRIF annuitant based on current minimum withdrawal requirements for a plan value of \$300,000 at age 70. Assuming a five percent annual return on investments, changes in the RRIF value are shown. For those worried about outliving assets, the numbers provide some comfort. At age 90, 60 percent of the original asset value is still available, and this doesn't consider other sources of retirement income.

Need More Income?

If income beyond a RRIF will be needed, planning ahead can ensure that other sources will be available. A RRIF is flexible in the amount of income you can draw, so some retirees will withdraw more than the minimum during years when needed. A Tax-Free Savings Account (TFSA) has also become a significant investment vehicle that can help fund retirement. And, in many cases, people



do not stop working at age 65. While they may leave lifelong jobs, they may end up doing something else productive and perhaps even profitable!

For those concerned about longevity risk, the Canada Pension Plan (CPP) has the potential to provide a greater benefit payout if payments are deferred to the age of 70. The current annual maximum benefit is \$14,445 for an individual starting payments at age 65, but this rises by 42 percent at age 70. Yet, fewer than one percent of retirees delay CPP benefits until age 70, despite studies continuing to show that it can be one of the more financially prudent decisions should you live beyond the average life expectancy of 82 years old.³

We Are Here to Assist

One of our roles is to provide assistance as our clients prepare for a comfortable retirement. We can assist with worksheets and tools to help estimate your requirements as you plan for the future. Continue to look forward with confidence!

1. https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/abacus_executive_summary_2020.pdf; 2. https://thestar.com/business/personal_finance/opinion/2020/02/10/a-fulfilling-retirement-may-be-cheaper-than-you-think-heres-why.html; 3. <https://www.theglobeandmail.com/investing/personal-finance/retirement/article-less-than-1-of-canadians-choose-to-delay-cpp-heres-why-the-rest-are/>

RRIF Income Generated Using Minimum Withdrawal Payments*

Age	Income	RRIF Value (Year End)	Age	Income	RRIF Value (Year End)
69		\$300,000	74	\$14,819	\$294,398
70	\$15,000	\$300,000	75	\$14,720	\$291,984
71	\$15,000	\$299,160	80	\$13,870	\$272,352
72	\$14,958	\$297,963	85	\$12,274	\$236,867
73	\$14,898	\$296,384	90	\$9,672	\$180,049

*Based on \$300,000 RRIF value at age 69, compounding at a five percent annual return and with minimum withdrawal factors. Intended for illustrative purposes only.

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