



## How Much do you (REALLY) Need to Save for Retirement?

When it comes to retirement planning, isn't this the million dollar question?! How much do you – *really* – have to save for retirement? Presumably, that means a comfortable retirement with no, or at least few, money worries. Of course, **no** money worries might be a bit optimistic, but at least no substantial worries about finding yourself without basic necessities, like food and shelter.

Perhaps it is the million dollar question because many tell us the answer is also a million dollars? Not necessarily. The answer can be as varied as the people who are asking the question.

How much do you really need to have saved for retirement? In contrast to many others, we have a simple formula for this.



However, before we talk about this simple formula, we need you to know one thing:

It's not so much the formula as the thinking behind the formula.

### The Formula

How much do you need to save for Retirement? Three simple steps:

1. Figure out how much income you need each year when you're retired – say, \$40,000.
2. Look at how much of that income comes from predictable sources of income such as CPP and your workplace pension plan (if it is defined benefit) – say, \$30,000.
3. Your gap is the difference between what you need and what you get from predictable sources - \$10,000 in this case. Save 25 times this gap – in this example, 25 times \$10,000, which is \$250,000.

That's it.

And here's why ...

### The Thinking

Lots of things could happen, but let's separate them into one of three categories:

- a. You'll put the money in a simple bank account (earning no interest) and it will last you 25 years; or
- b. You'll invest it in a sensible, diversified portfolio that might be expected to have a long term average return of 4% to 6%. Let's say you actually make the average return of 4% every year. You spend that 4% (noting that 4% of "25 times your income target" equals exactly your income target). In other words, you spend only the investment earnings, and your money lasts you forever; or

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- c. More likely, you'll find that your investment return bounces around, and perhaps you end up somewhere in-between (a) and (b) – i.e., you make somewhere between 0% and 4% return on average. Then your money lasts somewhere in-between 25 years and forever.

For sure this is rather simplistic, since you may lose money some years and make much more than 4% in other years. Like we said above, it isn't so much the formula as the thinking behind the formula. Think in terms of how many years you need your money to last, and what kind of return you think you could get.

Maybe you think you can make more than 4% per year? Note that 4% times 25 equals 100%. So, if you think you can make 5% every year, then you just need to save 20 times your income needs [ $20 \times 5\% = 100\%$ ]. If you're nervous that you'll make only 3%, then you could save 33 times [ $33.333 \times 3\% = 100\%$ ].

Once you see how this works, you can decide what you're comfortable with. You can also adjust as your savings grow and your situation changes.

So, instead of worrying, start doing the math!

<http://www.retirementworks.ca/theworks/blog072017-How-much-do-you-really-need-to-save.html>

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