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## Set Your Retirement Income Goal

Planning for your retirement is like any other project you take on in life – if you don't give yourself a deadline you may never get around to it. And remember that it is never too early or too late to start planning for your retirement. You just need to roll up your sleeves and get to work. Here are some ideas to help you chart your course ...

### Get Started

We all want the peace of mind of knowing that we will have a comfortable income when we retire. However, many of us don't spend the time to think about retirement. Some of the barriers are:

- Inertia or procrastination – It's not that we don't want to prepare for our retirement years; we just can't get around to it.
- Bias in the present – The dollar we have in our pocket today is more valuable to us than what that dollar might grow into 20 years from now.
- Too complex – There are so many choices: banks offering investments, employers providing retirement savings plans, financial planners and well-meaning relatives offering advice. Planning for retirement is complex and we are paralyzed into inaction.

But let's take it one step at a time. **The first step is to define our retirement income goal.** Once an income target is identified, then our financial future becomes more tangible; we will be more engaged, and we can unravel the complexity and turn it into action.

### Set an Income Goal

How much money you need in retirement is a personal decision as it relates to the lifestyle you wish to maintain in retirement.

In retirement, some expenses such as CPP, EI and union dues contributions will disappear, while others may increase or decrease depending on your personal circumstances. On average, it is reasonable to expect that a lower income may meet one's needs. However, as the needs vary between individuals, a good place to start is to assess your current living expenses and give some thought to how they may change in retirement.

#### *Step 1—Create a Personal Budget*

Categorize your current annual expenses into the following:

- i. Housing (principal and secondary) – Include mortgage payments, rent, taxes, heat and electricity, insurance, cable, internet, phone, maintenance.
- ii. Transportation Expenses – Such as expenses to commute to and from work; car expenses; car insurance, public transportation costs.
- iii. Living Expenses – This category includes all your living expenses such as food; clothing, personal care; health care costs.
- iv. Personal expenses – Any typical expense not included in one of the other categories should be included here; such as entertainment costs, vacation, education, etc.



- v. Income Tax and Benefits Expenses – This category includes all of your income taxes and statutory payroll taxes such as CPP and EI contributions, or union dues.
- vi. Savings and Financial Security Expenses – Here include your contributions to RRSPs, TFSAs, non-registered savings, life, disability insurance, health benefit and employer retirement arrangements.

Once you are done, remember that your total expenses must add up to your gross income.

### *Step 2—Create a Retirement Budget*

After you have identified all your current expenses, look at them in a slightly different way to help you estimate how these expenses will change after retirement.

Remove your statutory deductions as you will no longer have those expenses. You can also allow for lower income taxes.

Divide your other expenses into the following three categories to make it easier for you to know where the trade-offs, if any, need to be.

Necessities	Comforts	Luxuries
Expenses necessary to meet your and your family's basic needs.	Expenses that are not necessary but they enhance your life and provide comfort.	Expenses that provide enhanced comforts. Generally, they fulfill dreams.
Analogy: Bread	Analogy: Cheese	Analogy: Lobster

Doing a budget in anticipation of retirement will give you a clearer picture of what you'll need in retirement. The logical starting point is what you're spending now. Also, if your retirement income target presents a challenge to achieve, a current budget can help you identify areas where you might be able to cut back and save a little more for your retirement.

<http://www.retirementworks.ca/theworks/blog122017-Set-your-retirement-goal.html>

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