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How Much Do I Need To Retire?

This is one of the most common questions I get at retirement planning seminars. My answer is a glib, “How much do you want?” After some discussion the participants realize that they do not want more than what they are spending now, and in many cases they want less than they are spending now.

I have the participants go through an exercise where they identify their current expenditures. They then make adjustments for changes in expenditures prior to retirement such as paying off the mortgage or finish paying for the children’s education. Other adjustments are made for changes at retirement such as decreased work related expenses and increased leisure expenses. The resulting figure is the participants’ retirement expenditures.

This cannot be compared directly to the participants’ retirement income because of income taxes. I prefer to add the taxes to the expenses rather than deduct the taxes from the income. This is because, with proper planning, income taxes can be reduced.

Now the total retirement expenses can be compared to regular retirement income such as pensions, CPP and OAS. If these incomes are not sufficient to cover the retirement expenses, more income must be generated from RRSPs or other investments.

A Rule Of Thumb used to determine an approximate amount of monthly income is that it would take \$1,500 of capital to buy \$10 per month of income. So if you need an extra \$1,000 per month to cover your expenses, you would need to have about \$150,000 in savings. (This rule is sensitive to interest rates and length of time over which capital will be used up.)

This process can be used by anybody to help them determine How Much They Need To Retire.

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