How much do you need to save for retirement?

Whether your retirement is far in the future or just around the corner, like many Canadians, you probably wonder how much you'll really need to save for it. Well, it depends.

Not a very satisfying answer, but how much you'll need depends largely on your retirement plans. And it's different for everyone. Before trying to figure out how much to save, and what sources your income might come from, a more important first step is to figure out what you want your retirement to look like. This is what to think about when you're building a retirement plan.

Start picturing your retirement

Your financial needs during retirement depend on a number of factors, including where you'll be living, how you'll be spending your time, and whether you'll continue to work. Here are a few things to think about when estimating your retirement costs:

• *Where will you live?* Will you live in an urban centre, a smaller town or a rural community, and how will those choices impact your cost of living? Do you plan to downsize to a smaller home after the children leave the nest, and use the equity to help fund your retirement? Or do you plan to stay in the same home as long as possible? Maybe a cottage or a getaway vacation home in a warmer location is on your wish list.

• *What will you do?* What will your day look like during retirement? Do you want to travel during retirement, or simply spend more time on your hobbies? Do you anticipate helping to support your children or grandchildren during your retirement? Consider not only your day-to-day expenses, but how other activities – like travel or a golf membership will impact your living costs.

• *When will you retire?* Are you hoping to retire early, or will you delay retirement as long as possible? The earlier you retire, the sooner your employment income ends, and the sooner you'll dip into your savings. Retiring before you turn 65 can also reduce the payments you receive from government programs or company-sponsored pension savings if you choose to take payments early.

• *Will you work during retirement?* You may want to maintain your industry network and take on the occasional consulting gig. If you own your own business, you might reduce your work hours to begin passing the reins to a successor. Perhaps you plan to take on a part-time job to keep yourself busy and active within your community. Paid employment during retirement can help you delay drawing on government or pension plan payments, which could help boost your payments in future years.

Understanding your income sources

Once you figure out what you want your retirement to look like, you need to consider what income sources will be available to you during retirement.

1. Public government programs
There are a variety of government programs available, but the big one for most Canadians is the Canada

Pension Plan (CPP)—or Quebec Pension Plan for residents of Quebec. It provides monthly payments designed to supplement a portion of your income upon retirement. Your payments are based on your CPP contributions throughout your working life and the age at which you begin receiving payments. Get a better idea about CPP details and payments from the Government of Canada website.
Old Age Security (OAS) is another monthly payment you may be eligible for depending on your income. It's available to Canadians aged 65 and older, even if you're still working or have never been employed. Payments are based on how long you've lived in Canada and your income. Get a clearer view of how OAS works from the Government of Canada website.

TIP: The age at which you start to draw CPP and OAS payments can significantly impact your payments. For example, if you choose to begin collect CPP as early as age 60, your payments will be reduced by 7.2 per cent per year (to a maximum of 36 per cent). However, if you defer collecting CPP until after you turn 65, you'll increase your payments by 8.4 per cent each year (to a maximum of 42 per cent). It works similarly for OAS; if you defer taking payments until after age 65, your payments will increase by 0.6 per cent each month you delay, up to a maximum of 36 per cent at age 70.

2. Company-sponsored plans

Many Canadians have employer-sponsored retirement plans, including company pension plans (Defined Benefit or Defined Contribution Plans), Group RRSPs, Deferred Profit-Sharing Plans (DPSP)and Pooled Registered Pension Plans (PRPP). The payment amount you receive at retirement will depend on the type and structure of your company's plan(s), your contributions and length of employment. Your payment amount will also depend on when you choose to begin receiving those payments. In general, the longer you defer payments, the larger your payment amount. Check with your employer for more details on any company-sponsored retirement savings plans available to you.

3. Your savings and other assets

A large portion of your retirement will likely be funded by your own savings and investments, including registered retirement savings plans (RRSP), tax-free savings account (TFSA), possibly one or more locked-in RRSP or locked-in retirement account (LIRA), and a variety of non-registered investments.
All investments have different tax ramifications when you withdraw funds, so make sure you do your research. RRSPs must be collapsed or transferred by December 31 of the year you turn 71 years old but can usually be easily rolled into a registered retirement income fund (RRIF) or annuity, which slowly pays back your savings to you over time. On the other hand, TFSAs have no age limit, and savings are not taxed upon withdrawal. For unregistered investments, you'll have to pay taxes on any gains you made when you cash them in.

You may also have other kinds of investments to help fund your retirement, such as the equity in your home or business, as well as a vacation or income property. These assets are less liquid than other types of investment, but in the case of your home, you're able to draw on the equity you've built without incurring any taxes by downsizing to a less expensive property.

Of course, there are a variety of financial, health and lifestyle considerations to factor into your retirement plan. It can be complicated. But there are tools and calculators to help you plan for – and achieve – your unique retirement goals and dreams.

Talk to your advisor to learn more.

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