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No easy consensus on retirement saving

Rob Carrick
10:08 EST Thursday, Nov 01, 2007

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When you delve into the matter of how much money you need to retire comfortably, what strikes you is the lack of definitive answers.

The mutual fund company Fidelity Investments has taken a stab at answering this question by saying people need sufficient savings to replace 80 per cent of their annual after-tax income while working. Last week, this column looked at survey results from Fidelity showing that Canadians have on average saved enough to replace 50 per cent of their working incomes.

The response from readers, some of them retirees, highlights the complete lack of consensus on how to determine if you're saving enough for life after leaving the work force. Some people ratified Fidelity's numbers, some attacked the firm for self-interested scaremongering and others said they simply have a different way of looking at retirement savings.

In an e-mail sent from South Carolina, where he is spending a month, retiree Wayne Norman of Toronto said replacing 50 per cent of your working income can work if you live frugally, travel little and minimize expenses for luxuries like golf, an extra car, theatre, cruises and so on. "Is that the way you really want to live after you have retired?" he wrote.

Ed Aird of Port Coquitlam, B.C., said he's been retired for 14

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months and finds he's comfortable living on just over 50 per cent of his preretirement income (note: he has taken a two-week holiday to Jamaica). "In my situation, at the age of 63, the house is mortgage-free and our two children are grown and out of the house. These factors and any other debt obligations are significant considerations to a retiree's income requirements."

Clearly, much in retirement planning depends on how you intend to live after leaving the work force. But is using a so-called replacement ratio - the percentage of your working income you need to generate in retirement - the best way to start your planning?

John Radul, a financial planner in Burlington, Ont., said he prefers an approach that starts by asking clients how much cash they would need to live comfortably if they were to stop working today and didn't have child-related expenses and mortgage payments.

Then, he takes this number and builds on it by looking at the number of years until actual retirement, life expectancy, expected investment returns and inflation.

"The exercise freaks a lot of people out - most people don't account for inflation and figure if they live on $50,000 now, they can live on $50,000 in 25 years," he wrote. "But it is better to be freaking NOW while there's still time to do something about it. And on that point I think we both agree with Fidelity."

Among those who disagreed with Fidelity was Jim Maron, a resident of Richmond Hill, Ont., who is in his mid-40s and has two daughters, aged 8 and 11. He said he keeps track of what he and his wife spend and his conservative estimate shows that about 55 to 60 per cent of their current expenses won't be there when they turn 65. Specifically, he cited mortgage payments, child care expenses and contributions to registered retirement and education savings plans.

"What the hell would we do with 80 per cent of our current income at retirement?" Mr. Maron wrote. "Either live a life far higher than any we live currently or, as Fidelity hopes, invest it with them so they can keep skimming their cut."

Another reader to detect some self-interest in Fidelity's findings was Ted Rechtshaffen, president and CEO of the advisory firm TriDelta Financial Partners. Fidelity has created an online retirement savings calculator at fidelity.ca/takethechallenge and Mr. Rechtshaffen gave it a try. His conclusion: "In most cases with this tool, excess savings will be recommended."

Part of the problem is that the calculator doesn't factor in the potential funds available when someone moves to a smaller home in retirement. It also doesn't acknowledge that people have different spending patterns.

Mr. Rechtshaffen said some of the firm's clients spend much less than they make. If they were to retire in a few years, their expenses might go up a little initially as they do some travelling, but then they'd fall as a result of lower spending on clothing, transportation and such. The net result for these people: If they made 150,000 before retirement, they could probably get by with about $80,000 in retirement income.

Definitive answers don't exist in retirement planning, but that's because it's a field where generalizing doesn't work. Everybody's different, and so is the amount of money they need to retire comfortably.

The Fidelity take on retirement

Here's a hypothetical example of how much the mutual fund company Fidelity Investments thinks you should save for retirement:

Your Profile:

Age 50

Current RRSP savings of $250,000

Monthly RRSP contributions of $500

Expected retirement age of 65

Current salary of $100,000

Fidelity recommends:

Replace every $1 you earned after tax in you preretirement years with retirement income of 80 cents.

Required savings: $1.77-million

Amount you're on track to save: $768,000

Annual retirement income suggested by Fidelity, based on your working salary: $80,000

Annual retirement income you're on track for: $43,000 (includes government programs, but no pension benefits)

Fidelity.ca/takethechallenge

rcarrick@globeandmail.com