



Retirement Basics

How much is enough?

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How Much is Enough?

A question all pre-retirees ask

- ▶ The answer really depends on what standard of living one wants





Four Basic Levels

1. Replacement consumption – 35%
2. Retire with contingency included – 50%
3. Retire with lifestyle adjustments – 70%
4. Comprehensive – 100%+


Four Basic Levels

- ▶ The basic level is assuming
 - ▶ Mortgage is paid
 - ▶ Kids – worry free
 - ▶ No debt
- ▶ Only replacing consumption meaning
 - ▶ Food
 - ▶ Utilities
 - ▶ Living basics





Four Basic Levels

- ▶ If you need to replace a car, roof or water tank
 - ▶ You need at least 50%
 - ▶ If you want to travel , buy gift for your grandchildren or do something on your bucket list
 - ▶ You need at least 70%
 - ▶ If you need to buy a condo for your children or save for your children's education
 - ▶ You need at least 100%
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Three Types of Money

1. Living money
2. Special events spending
3. Lifestyle adjustment





Living Money

- ▶ Living money is money you cannot live without
 - ▶ If you do you cannot make ends meet
- ▶ This is your CPP, OAS, guaranteed income
 - ▶ This money you cannot risk



Special Events Money

- ▶ Special events spending is good if you have it, but if you don't you can make do
 - ▶ You don't need it every day
- ▶ If you can travel once in a while is good
- ▶ If you can buy your grandkids toys is great
- ▶ But you can survive without it
- ▶ Special events and lifestyle adjustment is money or investment you can risk

Risk

- ▶ Risk is a keyword here
- ▶ What are the risks
 1. Market risk
 2. Longevity risk
 3. Inflation risk
 4. Liquidity risk




Risk

- ▶ If you risk your living money portion and lose like 2008
 - ▶ You would rely on the government completely for the rest of your life
- ▶ What about a condo that you cannot sell to cover losses?
 - ▶ Liquidity is essential too





Risk

- ▶ If you only plan to live to 85 and ended up living to 106
 - ▶ You again would rely on the kindness of strangers
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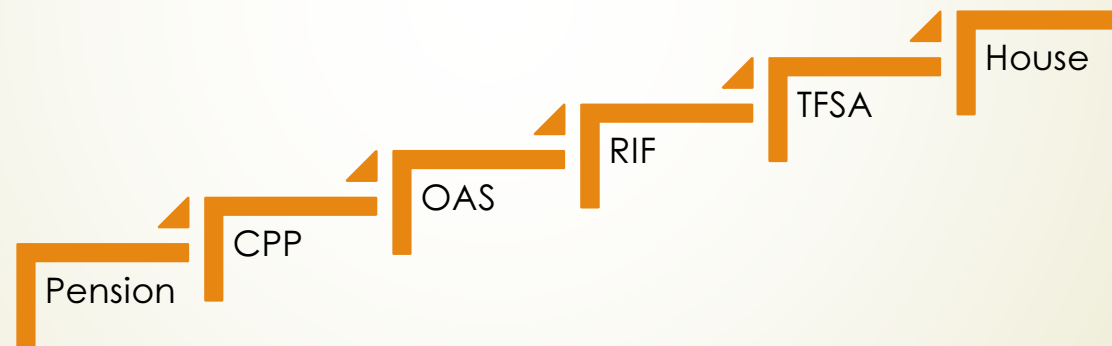
Risk



- ▶ If you think \$3,000 a month should be enough forever, you are mistaken
- ▶ With inflation at 4.3%, your purchasing power is cut in half in 15 years
 - ▶ This means if you are 65 now and you live to 95
- ▶ \$3,000 at age 65 would mean your purchasing power will reduce to \$1,500 at 80 and it would further reduce to \$750 at 95

Raise

- ▶ If you don't give yourself a raise every few years, how are you going to make it for a 30 year retirement
- ▶ We use the staircase approach





Raise

- ▶ At age 55 a person retire using his pension or cash for the few years before 60
 - ▶ \$3,000 a month
- ▶ At 60 use CPP addition as part of increase in income
 - ▶ \$3,000 + \$700
- ▶ At 65 add OAS into income stream
 - ▶ \$3,000 + \$700 + \$540
- ▶ At 71 add RIF income
 - ▶ \$3,000 + \$700 + \$540 + \$1,000
- ▶ At 76 add TFSA as income
 - ▶ \$3,000 + \$700 + \$540 + \$1,000 + \$300
- ▶ At 85 house proceeds for long term care
 - ▶ \$3,000 + \$700 + \$540 + \$1,000 + \$300 + \$2,000



Raise

- ▶ How many increments is ideal?
- ▶ It depends on your way of life
- ▶ If you work until 70 before retirement, you will have less steps




Raise

- ▶ The incremental income approach indicate something basic
- ▶ Retirement income consists of
 - ▶ CPP + OAS + Pension or RIF
 - ▶ Additional planning can add TFSA and house proceeds to income



Raise

- ▶ The most basic premise is in the final stage of retirement
 - ▶ The addition of CPP, OAS, and Pension is sufficient for either 35%, 50% or 70% of your pre-retirement income
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The Barbell of Retirement

- ▶ At 60-75 = Golden age
 - ▶ Highest spending years
- ▶ At 75-85 = Sedentary years
 - ▶ Least amount of spending
 - ▶ Not travelling much, not a huge need on healthcare yet
- ▶ 85+ = Ending years
 - ▶ Spending on healthcare



Golden Age

- ▶ Plan the spending of lifestyle adjustment
- ▶ Plan the spending on special events
- ▶ They are most likely to occur





Golden Age

- ▶ What can we do to safeguard our living money? Money we must have
- ▶ If you need as a couple \$5,000 a month to live what do you do?
- ▶ You start by adding CPP, OAS and Pension

Husband	Wife
CPP \$750	CPP \$540
OAS \$540	OAS \$540
Pension \$2,000	RSP \$1,000
Total income \$3,280	Total income \$2,080



Golden Age



- ▶ \$5,360 a month in total income
- ▶ What is guaranteed?
 - ▶ \$4,360
 - ▶ RRSP money is not guaranteed. Can it be?
- ▶ Yes, a person can get a Guaranteed Minimum Withdrawal Benefit (GMWB) or life annuity for that \$1,000 of RIF income



Golden Age

- ▶ The key to watch out for here is
 1. The \$5,360 a month is it before or after tax?
 2. Is the \$5,000 a month for living expense only or special events spending and lifestyle adjustment included?



Golden Age

- ▶ What does the couple have to make to get \$5,000 a month after tax?
- ▶ What every couple need to do before they actually retire is to answer a series of planning questions
 1. What do I need?
 - ▶ 35%, 50%, 70% or 100%+
 2. Do I know my government benefits?
 3. How much is my living money? Special events spending? Lifestyle adjustment
 4. Have I taken care of the four risk factors
 - ▶ Investment risk
 - ▶ Longevity risk
 - ▶ Inflation risk
 - ▶ Liquidity risk



Questions

- ▶ Am I giving myself a raise every few years?
- ▶ Do I have a long term care plan?
- ▶ Do I have an estate plan or arrangement concerning my kids?
- ▶ What am I doing to reduce taxes?

Questions

- ▶ If you have an answer to each of these questions, you are prepared
- ▶ Do you like your answers?





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