

Financial Focus

Retirement Spending

How much money do I need to retire? That is a very common question, before we can accurately answer that question we need to determine how much you will spend in retirement. Figuring out your retirement spending can be a little tricky. Statistics Canada can provide some perspective, they track household spending annually. The 2017 numbers are not available yet, but in 2016 the average Canadian household spent \$62,183 of after tax money. That number is for all Canadian households, retirees have unique needs. To help shed some light on what retirees spend, Sun Life did a study. Their study was in 2016 and included 2,006 retirees. It found that on average Canadian retirees are living on 62% of the income they earned prior to leaving the work force. They also found that the majority, 88%, of retirees were happy and enjoying retirement. So a couple who earned \$100,000 as a household before retirement was comfortably living on \$62,000 in retirement.

Statistics can provide some perspective, however the numbers mentioned above are averages and every retirement is unique. I work with a number of retirees and from experience I find your lifestyle prior to retirement is often similar to your lifestyle in retirement. So looking at your current budget can give you an idea of what you will spend in retirement. I encourage folks to give serious thought to what they want to do in retirement, then look at the current budget and make a few adjustments. While each retirement is unique the following are common budget adjustments:

Debt/Housing Costs: By retirement many folks have paid off their mortgage, which means they don't need as much money to maintain their lifestyle. However it is important to keep in mind that if your goal is to stay in your current home, an older house tends to have higher maintenance and repair costs.

Travel: Do you want to spend the winter down south? Travel to Europe? In addition to plane tickets, lodging costs and spending money, insurance can make travel expensive. The older you are the higher the insurance cost. Frequently, because of the cost of insurance, the majority of travel happens in the early retirement years.

Family: It is common when creating a retirement budget to imagine expenses will decline because the kids will be out of the house. While this is true, sometimes out of the house means in another province or in another country. Spending time with kids and grandkids may mean extra travel costs. When adjusting the budget for money spent on kids I prefer to be conservative and only factor in a partial decline.

Contributions/Savings: When you are in retirement you no longer need to save for retirement, which can free up some room in your budget. As well when you are working your income tax bill is often higher and EI and CPP contributions can take a bite out of your pay cheque. In retirement, since you are no longer working, your income tax might be less and you no longer need to contribute to EI and CPP. The list above is not exhaustive. In general, in retirement folks tend to pay less tax and spend less on vehicles, clothing, housing and other day to day expenditures. They spend more on hobbies, vacation and medical expenditures. The process above is designed to help you think about what you want out of retirement and adjust your budget accordingly. As well life can have unexpected twists and turns, which is why it is important to occasionally review your retirement budget to ensure you still on track.

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