The Institute of Chartered Accountants of Ontario

How much do I need to retire?

It really comes down to just two things: how much it costs for you to live, and how long you are likely to be here.

How to determine what you spend should just be a matter of adding up your expenses for housing, food, transportation, etc., but it's not as simple as it sounds.

"Until recently, the availability of credit meant people could buy things they could never have afforded if they had to pay cash," says Chartered Accountant Giovanni Roma, a partner with Miles & Roma Professional Corporation in Windsor. "People need a reality check when it comes to their lifestyles," he says, "and they must be willing to take control of their spending and start saving."

How long those savings need to last is another question altogether.

"Life expectancies are constantly increasing, so you must consider that when calculating how much you need to save," says Roma. "A more current issue is the economic downturn that has affected people's savings and investment portfolios. Anyone with money in the equity markets has probably lost a significant amount of ground recently."

Those working for companies with defined benefit pension plans and other health benefits are the lucky ones. A certain amount of money is set aside each year for employees' retirement funds. When the markets perform poorly, the company makes up any shortfalls if it can. Benefits are paid to the employee for the rest of his or her life, and then usually transfer to the spouse after death.

But entrepreneurs, the self-employed and those working in smaller businesses must do their own saving for retirement.

"There are two government programs that provide some income assistance," says Chartered Accountant Derek de Gannes, senior tax manager with Soberman LLP in Toronto. "The first is the Canada Pension Plan. Virtually everyone over age 18 who earns a salary contributes and is eligible to collect it, starting at a discounted level at age 60. The second is the Old Age Security pension that's available to most Canadians aged 65 and older."

But, de Gannes cautions that the maximum benefit from both plans is about $1,400 per month – not enough to support more than the most frugal lifestyle. A very large part of the population must rely, at least in part, on their savings. And the sooner you start to accumulate those savings, the better.

"As you age, your portfolio should become more conservative," says Roma. He advises investors to get professional advice from financial experts who understand the needs and circumstances of retirees. Also, be sure to sit down with them to review your plan at least once a year – even more often when there are significant changes, like what is occurring now in the economy.

You can live comfortably and securely in retirement, and have money to support yourself for as long as you need it. But the time to start planning is when you're young, or at least…as young as you are now.

Printed on **Mon, December 21, 2009 - 2:27:43 EST**
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