Retirement is coming

How much will you spend? Will you have enough?

For years you've been saving for retirement. How much do you think you will spend during retirement? Will you have enough? You've probably considered the first question from time to time, but have you taken a hard look at the second question?

It's one thing to save for retirement in general, but what about *your specific* retirement? There are plenty of recommendations out there touting the 4% rule of thumb; that's the amount of your retirement assets you should spend each year of your retirement. Does that figure have any connection to you and *your* retirement? What you want today may change from what your needs will be when you actually reach retirement. Estimating what you will spend will involve a blend of personal reflection and number-crunching.

If you're between ten and five years away from retirement, now more than ever is the time to sit down and do some solid planning. This is when you need to work closely with your TD advisor to map out your spending patterns over the stages of retirement.

You'll need to construct a flexible, tax-efficient cashflow to meet your fixed bills and discretionary spending. Of course certain risks will always be in play. You may be struck by illness. The market could dip. Inflation and asset allocation will have an impact on how you withdraw from retirement income sources.

Despite the potential for these risks arising, you'll need to shift from an accumulation mindset to laying out your retirement spending and income. What are the most likely events in your life that may require you to review and recalibrate your planning?

Spending zones

Let's assume there are four spending zones during your retirement:

- Moving toward retirement: 60-63
- Active retirement years: 64-70
- Slowing down: 70-80
- Staying put: 80-90

Now, within each zone, insert goals and life events that could affect spending. For example, will you be travelling? Meanwhile, it's a rare person that does not face some type of **health challenge**. Based on your family health history, what might yours be? What level of expenses will be associated with that challenge?

Several studies conclude that a Canadian without private health coverage will spend about $5,400 a year on out-of-pocket health expenses. The cost of long-term care is, of course, much higher. According to www.senioropolis.com a *nursing home* in Ontario ranges from $15,000 to $130,000 a year. Long-term care can range between $20,000-30,000.

Key questions

Here are some questions to work through with your TD advisor for planning your retirement:

- When do I want to retire?
- What are my retirement income sources (government benefits, pensions, investments)?
- Will I have debts when I retire?
- Do I have sufficient health coverage?
- Will I sell my home because I may not be able to maintain it, or I will need the proceeds to fund my retirement?
- What would I like to leave for my spouse?
- Will I be leaving a legacy for my children?
- Will I be leaving a gift for charity?

To answer these questions, you'll need to take a step back and set out as much as possible how much you'll need in each spending zone — broken down by goals and life events. This presents a budgeting challenge, which may or may not be your forte. Either way, your TD advisor can help. Dive into your financial files for the following information:

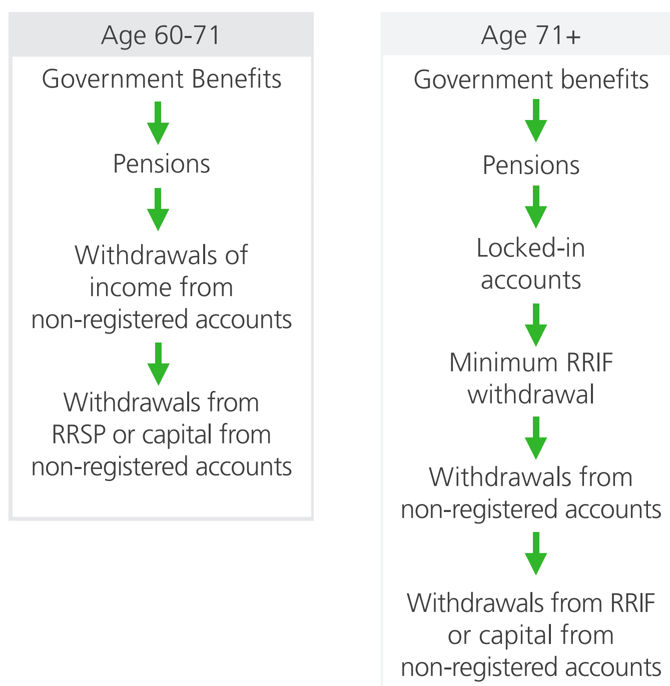
- What will your set bills amount to? (That includes housing costs such as property tax, utilities and maintenance, and insurance premiums.)
- What will you spend on food, clothing and transportation?
- What will you spend in discretionary income? (That includes travel, hobbies, entertainment.)

Retirement income sources

One of the pillars of retirement income is government benefits. You'll have to decide when to start receiving Old Age Security and Canada Pension Plan or Quebec Pension Plan benefits.

Second, you'll need to review your optimal asset allocation based on your portfolio, lifespan estimate and attitude toward risk — for each of the four spending zones.

Third, you'll need to look at your withdrawal strategy. Here are some possible approaches to sourcing retirement income:



Source: TD Portfolio Advice and Investment Research, 2017.

Examine these possible strategies with your TD advisor. They should be financially viable for you and tax efficient. If you're 10+ years away from retirement, you could be looking at a growth-oriented asset mix. If you're between 3-9 years away from retirement, you may consider a more "balanced" portfolio. In the final two years before retirement, safety may be paramount.

Let's look at illustration of Sophia's possible retirement picture. Sophia thinks she'll live to 90. She has paid off her mortgage, and doesn't plan to sell her home. She plans to start taking CPP at age 64 and OAS at 65. She has a company pension plan and doesn't plan to withdraw from her RRSP. Instead, she will convert it to a RRIF when she turns 71, and start withdrawals from the RRIF at that time. Sophia will begin withdrawing from non-registered assets when she retires. She has done her best to estimate his spending.

Here is what a possible scenario for her retirement may look like:

	Retirement	64*	65*	66*	70	71	75	80	85	90	Sum	Remainder
IN												
2%	**CPP/QPP**	10,000	10,200	10,404	11,262	11,487	12,434	13,728	15,157	16,734	$353,443	
2%	**OAS**	0	6,936	7,075	7,658	7,811	8,455	9,335	10,307	11,379	$233,541	
	Pension	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	$162,000	
	Other	1,500	1,500	1,500	1,500	1,500					$12,000	
$250,000	**RSP/RIF**	0				7,500	9,116	11,635	14,849	18,952	$247,995	0
$32,500	**TFSA**	5,000	5,100	5,202	0	0					$31,541	0
$350,000	**Non Tax**	6,000	6,120	6,242	6,757	6,892	7,460	8,237	9,094	10,041	$212,066	200,000
$500,000	**Home Equity**	0									$0	500,000
Paycheque		28,500	35,856	36,423	33,177	41,190	43,465	48,934	55,407	63,106	$1,252,586	
	Retirement	**64***	**65***	**66***	**70**	**71**	**75**	**80**	**85**	**90**	**Sum**	**Present Value**
OUT												
2%	**Basic**	$15,000	$15,300	$15,606	$16,892	$17,230	$18,651	$20,592	$22,735	$25,101	$530,165	$310,603
2%	**Disc/Leisure**	$14,000	$14,280	$14,566	$15,766	$10,000	$10,824	$11,951	$10,824	$11,951	$323,074	$189,276
1%	**Taxes**	$3,675	$3,712	$3,749	$3,901	$3,940	$4,100	$4,309	$4,529	$4,760	$113,267	$235,633
2%	**Health Care****	$3,500	$3,570	$3,641	$3,942	$5,000	$5,412	$7,500	$8,281	$9,142	$166,058	$60,003
	Total	$36,175	$36,862	$37,562	$40,501	$36,170	$38,987	$44,352	$46,369	$50,955	$1,132,565	$795,515
Total		**-7,675**	**-1,006**	**-1,139**	**-7,325**	**5,020**	**4,478**	**4,583**	**9,038**	**12,151**		

*extra cash first 3-4 years?
**no coverage
Source: TD Portfolio Advice and Investment Research, 2017

It should be noted that the numbers in Sophia's spreadsheet do not account for issues like investment income tax, though it also does not reflect any growth of her investments.

Instead, Sophia has a picture of a very conservative retirement that will require making changes to her spending habits in the early years, and considering when to trigger and/or increase certain sources of retirement income.

She could make up the gap between her annual income and spending in a variety of ways. For example, she could:

- Spend less — lower expenses, if possible
- Fund any gaps through withdrawals from her RRSP or other non-taxable accounts based on the projection of a $200,000 surplus at the end of life
- Fund the gap from both registered and non-registered assets, and consider, a reverse mortgage, if required, down the line.

With all three options, it would be reasonable to suggest that investment growth might help to make up some or all of her short-fall. Sophia's plan should ideally be re-visited each year.

Now you are ready :

- **To take a hard look at your retirement goals & needs**
- **Work with your TD advisor to build a solid retirement plan that takes into account your spending estimates and life risks**
- **Aim to have enough retirement funds for the rest of your life**

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