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# How Much Do I Need to Retire?

This is the most commonly asked question at retirement planning seminars. It is also one of the hardest questions to answer generally. Each individual or couple will have a different answer based on their desired retirement lifestyle.

The first step to determine how much you need to retire, is to estimate your retirement lifestyle (spending habits). This retirement lifestyle will usually be close to your current lifestyle (most people do not want to see a decline in their lifestyle at retirement). To estimate your retirement lifestyle, simply take your current spending and adjust for expenses that will change between now and retirement and at retirement.

The easiest way of doing this is to use your take-home pay (the amount that goes into the bank each pay period) and subtract expenditures like the mortgage payments (not the property tax component), other debt payments (that will be finished before retirement), children's expenses, and savings (RRSP contributions, investments, etc.).

Once you have determined your retirement expenditures you have to add an amount for income taxes. Increasing your expenditures by 25% should be enough to account for taxes. This is the amount of gross income that you need in today's dollars.

The next step is to look at the income that you know you will receive from pensions, and government sources. Subtract from your gross income needed the amount that you expect from CPP, OAS (if any) and employer pensions. The net amount is what you have to fund from your own savings.

To calculate what this amount will be in future dollars at retirement, you can use a rule of thumb called the Rule of 72. If you divide the inflation rate in the number 72, the answer is the number of years in which the cost of living doubles. At an inflation rate of 3%, the cost of living doubles every 24 years. At an inflation rate of 4%, the cost of living doubles in 18 years. Depending on how long you have to go before retirement, you should double, triple or quadruple the amount of income that you have to fund from your savings.

Once you have the future amount of income required from your savings, you can calculate how much capital is required by multiplying the annual income by 10. This gives you an approximate amount of savings required at retirement. The assumption built into the number 10 is that you will use the principal and interest (at 8%) over a period of 20 years.

If you want your money to last longer, or if you expect a lower interest rate, or if you want inflation protection, you will need a higher amount still of retirement savings.

To calculate how much you have to save each year to accumulate your retirement savings, you will first have to determine how much your current savings will grow to. This can be calculated using the Rule of 72 again. This time divide the investment return into 72. The answer is the number of years to double your capital. At an investment return of 7%, your money will double in 10 years. At a 10% return, your money will double every 7 years.

So now you should know how much retirement capital will have to be created from future savings. There is no rule of thumb to calculate the annual savings requirement. The longer you have to retirement, the more of the retirement savings will be provided by your investment return. If you have a shorter time to go before retirement, more of the retirement savings has to be provided by your savings.