

Never think Never

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Factors to consider when planning your retirement

Whether you are at the beginning, middle, or late stages of your financial life, it is essential to properly manage your current resources so you can make your dreams come true in the future. Here is an example that illustrates the benefits of a concrete action plan for making informed decisions.

Eric and Melanie are a couple in their early forties with an eight-year-old daughter, Caroline. What is their retirement goal in 20 years? To live on \$44,000 a year after taxes, indexed to the cost of living at that time. They are married and have signed a will, a mandate in case of incapacity, and a general power of attorney before a notary. Neither of them have an employer pension plan (also called a retirement fund), but they have taken out group insurance.

Go through the following steps before deciding whether their plans are feasible:

Net Worth (assets minus liabilities)

The couple's net worth is \$222,000, which means the value of their assets in the form of property and money is greater than their debts.

Assumptions

As an example, let's assume the following:

- The inflation rate is 2%.
- The projected rate of return is 6%, corresponding to a "balanced growth" investor profile, characterized by moderate tolerance for market fluctuations combined with the desire for regular income and some capital growth.
- Eric and Melanie have unused RRSP contribution room of \$78,373 and \$81,842 respectively.
- Their combined debt level is below the norm at 35% of their gross monthly income.
- They have an emergency fund in unregistered savings totaling \$8,000. Ideally this should be the equivalent of three months' net living expenses, or about \$17,000. Eric and Melanie have personal lines of credit to make up the difference.
- They are each taxed at a marginal rate of 40%.
- They are about to make their last mortgage payment.

Budget

	Gross Annual Income	Net Monthly Income (including RRSP contributions)
Eric	\$41,600	\$2,925
Melanie	\$46,500	\$3,226
Total	\$88,100	\$6,151

As their monthly living expenses total \$5,818, they can save \$333 a month, or nearly \$4,000 a year, which they invest in their RRSPs.

By saving almost \$4,000 a year for 20 years, can Eric and Melanie achieve their goal of living on \$44,000 after taxes and indexed to the cost of living?



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Here are three possible scenarios:

	RRSP Savings per Month	Monthly Living Expenses	Retirement Goal
Scenario 1	\$333	\$5,818	\$30,600
	By maintaining the status quo until retirement, i.e., putting \$333 a month in their RRSPs, Eric and Melanie will reach 69.5% of their objective of a net annual retirement income of \$44,000, or \$30,600.		
	RRSP Savings per Month	Monthly Living Expenses	Retirement Goal
Scenario 2	\$333 + \$667	\$5,408	\$39,500
	At the same time Eric and Melanie are planning their retirement, they are finally paying off their mortgage, so they decide to transform their \$667 mortgage payments into additional RRSP savings. As well as reducing their monthly living expenses to \$5,408, this strategy will provide a net annual retirement income of \$39,500, i.e., 89.8% of their goal of \$44,000.		
	RRSP Savings per Month	Monthly Living Expenses	Retirement Goal
Scenario 3	\$333 + \$667 + \$304	\$5,221	\$43,600
	For the moment, Eric and Melanie are making monthly car payments of \$304. However, they plan to pay off the car within two years, after which they can add this amount to their RRSP contributions and achieve 99% of their objective, i.e., a net annual retirement income of \$43,600.		

Here are a few recommendations for Eric and Melanie:

- Create as much financial flexibility as possible in the form of savings.
- Invest unregistered savings in a TFSA.
- Take advantage of immediate tax savings for your RRSP and that of your spouse.
- Use RRSP contributions to reduce the amount of income tax deducted from your paychecks. Inform your employer and benefit from additional income tax savings on each paycheque.
- Manage your debt level appropriately.
- Boost your emergency fund as soon as possible.
- Build a retirement scenario based on realistic assumptions.
- Optimize your tax strategies to reduce your income tax until retirement.

Factors to Consider to Properly Plan Your Retirement

- Set your retirement age.
- Determine your needs and actual expenses during retirement.
- Identify and quantify your sources of retirement income (public and private).
- Evaluate the amount you need to save from now until retirement.
- Base your projections on realistic assumptions.
- Establish appropriate savings and investment strategies.

Planning is reassuring! Come in and discuss it with us. We can help you make the best choices. We can also suggest strategies adapted to your personal situation that will enable you plan wisely for each important phase of your financial life.



Cooperating in building the future

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The information provided is for illustrative purposes only as there are other possible solutions. Since each situation is different, no decision should be made without the help of a financial advisor or other professional. **This analysis was prepared by France Hudon**, a financial planner and group savings representative at Desjardins Financial Services Firm Inc. Financial planning services at the caisses are provided by representatives of Desjardins Financial Services Firm Inc.

