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## Roseman: Comfortable retirement requires flexibility, low debt

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Ellen Roseman

How much should you save for retirement? The answer depends on the standard of living you hope to enjoy after you quit work.

In a controversial 2007 report, Fidelity Investments said you need to replace 80 per cent of your pre-retirement income because you will be living longer and staying more active.

But most Canadians have saved enough to replace only half their working income, Fidelity said, leading to disappointment in their older years.

Another report that ruffled feathers came out last month from the C.D. Howe Institute, co-authored by David Dodge, former governor of the Bank of Canada.

It said you need to save up to one-fifth of your pre-tax income for 35 years to retire at 65 with an income replacement target of 60 to 70 per cent.

The authors, who want the government to raise retirement savings limits, do calculate what you need to save for a 50 per cent replacement rate – but they relegate the results to the appendix. (Answer: It's much less.)

They also fail to mention any other savings you may be able to draw on when you retire – such as an inheritance, sale of a business, home equity or rental income from real estate.

Such reports have an agenda. Financial institutions want you to save more for retirement because they can sell you more mutual funds and prepackaged investment portfolios.

They do not benefit if you devote all your disposable income to paying off the mortgage, instead of contributing to your RRSP or borrowing to invest.

The crucial role of reducing debt and being mortgage-free when you retire is underplayed in many reports. That's a shame.

In fact, you may be comfortable with a 50 per cent pay cut if you have no debts to service in retirement.

Some retirees manage just fine on half of their net income, says Rona Birenbaum, a certified financial planner in Toronto.

They have their mortgages paid off and don't need to save for retirement any more.

They're fulfilled by the simple, low-cost things in life and have an openness to change as a character trait.

For example, one of her clients said, "I can make up the deficit by taking in international students as boarders and working part-time if necessary."

Retirees in the 50 per cent club benefit from and enjoy their relationships with a financial planner. They value any advice to help them make sensible spending decisions, save money and reduce taxes. Every little bit helps. Birenbaum has met other people who have trouble adjusting to a lower standard of living.

"They may be part of a social circle that dines out regularly, travels frequently and drives high-end vehicles. Retiring on 50 per cent of their income may mean a change in how (and with whom) they socialize," she says.

"Some of these clients provide financial support to their adult children and are not sure how to turn off the tap.

"They may also struggle with the change if it means they can no longer visit children or grandchildren who live far away."

They, too, may have an easier transition if they have a financial planner to help them resolve tensions with spouses, parents and children arising from lifestyle compromises.

Next week, we'll look at the different components of your household income before and after you retire.

*Ellen Roseman can be reached at [eroseman@thestar.ca](mailto:eroseman@thestar.ca), 416-945-8687 or [ellenroseman.com](http://ellenroseman.com).*