> PLANNING

Creating a picture-perfect retirement

First figure out what your goals are, then look at how much money you'll need

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Do you want your retirement to look like this? If so, you need to start planning.

When you picture your retirement, what does it look like? Endless travel or cutting coupons? Or something in between?

"Your retirement goals will have a big impact on how much money you need to save," says Natasha Nystrom, spokeswoman for the Financial Consumer Agency of Canada (FCAC). "It's important to think about those goals and how you plan to achieve them well before your retirement." Your relative happiness during the golden years depends on how solid a plan you have in place. Ask yourself:

How much do I need?

Once goals are set, the next step is to get a rough estimate of how much you will need to fund a comfortable retirement.

"As a general rule, financial experts say you will need about 70 per cent of the annual income (before taxes) you earned during the last three years of work to maintain the same standard of living during retirement," says Nystrom.

"Of course, this number can vary from person to person, as everybody has different attitudes about money."

Where will the money come from?

There are handy online tools that can help you answer this.

The FCAC's Financial Goal Calculator, for instance, can break down the key elements of retirement finances, including pensions, expenses and savings by prompting you to input your financial information and providing you with a realistic plan to reach your financial goals during retirement. For a more detailed estimate, you can try Service Canada's Canadian Retirement Income Calculator.

"For many, pensions—whether public, private or a combination of the two—will make up a significant portion of retirement income," says Nystrom. "However, you can no longer rely solely on public sources of income to maintain your desired standard of living throughout retirement."

You will also need some personal savings. There is a range of sources of retirement income that are available, including Registered Retirement Savings Plans and Tax-Free Savings Accounts.

RRSP or TFSA?

An RRSP is an account for holding savings and investment assets for retirement. Investment in an RRSP account grows tax deferred, which means investors don't have to pay tax on any profits made within an RRSP account until the funds are withdrawn.

Moreover, the amount of deductible RRSP contributions you make reduces your taxable income thereby reducing your income tax bill.

Still, long-term savings tools, such as the TFSA, remain underutilized in Canada, says Wade Stayzer, vice-president of retail and investment services at Meridian Credit Union.

"There happens to be a lot of confusion and misunderstanding regarding the benefits of TFSAs," he says. "The simple truth is that TFSAs encourage Canadians to save while offering flexibility to their long-term and short-term financial goals."

Introduced by the federal government in 2009, a TFSA is a savings vessel that allows contributions to grow tax-free. It has an annual contribution limit of $5,500 and any withdrawals made from the account or investment income earned within it are also tax-free.

"More importantly, for investors who have maxed out their RRSP contributions for the year, a TFSA is a great way to complement their retirement savings tax-free," says Stayzer.

How much do I need to put in my RRSP each year?

According to a recent BMO survey, the number of Canadians planning to contribute to their RRSPs is falling. Lack of funds is cited as the most common reason.

Scott Plaskett, CEO of Etobicoke-based Ironshield Financial Planning, says the trick lies in figuring out the smallest amount of saving that will produce a desired outcome in retirement.

"Many of us err on the higher side of things and save more than we should," he says. "It's important to understand that financial planning is not about denying yourself today to become the richest person in the nursing home."

When contemplating how much to put into your RRSP and what investments to put those dollars into, consider whether your decision will move you closer to or further from your financial goal.

Putting too much into your RRSP or choosing an investment portfolio that has more risk than is required is simply wasteful and will not enhance your lifestyle, adds Plaskett.

Another key component of long-term financial planning is managing and minimizing debt.

The sad reality is that many Canadians are retiring with more debt than they had planned, says Stayzer.

He argues, though, that retirement savings need not be sacrificed to be debt-free sooner.

"While there is no one-size-fits-all approach to the saving versus debt repayment dilemma, investing as little as $20 a week into an RRSP can help your nest egg grow over time," he says. "Plus, any tax refunds garnered by your RRSP contribution can be used for debt repayment."