Saving – How much is enough?

Learning Objectives

- Understand how the Advantages Retirement Plan™ incorporates multiple factors for retirement planning success
- Learn more about how the Advantages Retirement Plan™ helps you set a retirement savings target that's geared to your individual preferences and goals

Key Insights

- How much of your earnings you should be saving depends on multiple assumptions about how much your savings are going to earn, how many years you have until and in retirement, and more
- The Advantages Retirement Plan™ provides a default savings rate based on your target retirement income

You already know that funding your retirement means saving some of your earnings during your working years. But how much of your earnings should you be saving? The answer depends on multiple factors, including:

1. How much you expect to spend in retirement
2. How much you've saved to date
3. How much you expect to receive in Canada Pension Plan (CPP) and Old Age Security (OAS) benefits
4. How long your retirement funds will need to last
5. The rate of return you can expect to earn on your invested funds

To make matters more complex, each of these factors may change for you over time. As a result, planning your savings for retirement can feel like trying to hit a moving target.

The good news is that the Advantages Retirement Plan™ will help you design a retirement savings plan in a few easy steps.

The Advantages Retirement Plan™ will prompt you for information such as your annual pre-tax income today, your target retirement age, and how much you've saved to date.

Based on several data points you input, the Advantages Retirement Plan™ will calculate for you what your monthly savings rate should be. In its calculations, the Advantages Retirement Plan™ incorporates various factors such as:

1. A 60% default target replacement ratio (see "Setting a target retirement income")

2. Statistical data about life expectancy — actuarial life tables which provide a long-term mathematical way to measure a population's longevity — to estimate how long your retirement savings might need to last
3. Based on guidance provided by FP Canada (the body that awards the Certified Financial Planner designation in Canada), a projection period where the probability of outliving your savings is no more than 25%
4. Approximately how much you can expect from government benefits (e.g. Canada Pension Plan and Old Age Security benefits)
5. Investment return expectations; for planning purposes and based on guidance provided by FP Canada, the Advantages Retirement Plan™ assumes your invested funds will grow at the rate of 5% (gross) per year before retirement, moving to 4.4 percent (gross) once you transition into and through retirement

If you choose to contribute less than the default monthly savings rate, the Advantages Retirement Plan™ will prompt you with a message indicating that you've chosen a contribution amount that will not get you to your target retirement income, and ask if you would like to set up an auto-escalation feature, which can automatically increase your monthly contribution at a later date and/or keep up with annual inflation rates and your income growth. Auto-escalation is a great hands-off way for you to ensure that you are building up your savings as efficiently as possible. You can always update or opt out of the auto-escalation feature if it doesn't feel right for you.

You can log into your Advantages Retirement Plan™ at any time to make changes to your retirement savings plan, and in fact, the Advantages Retirement Plan™ will encourage you to do so especially as your earnings change over time.