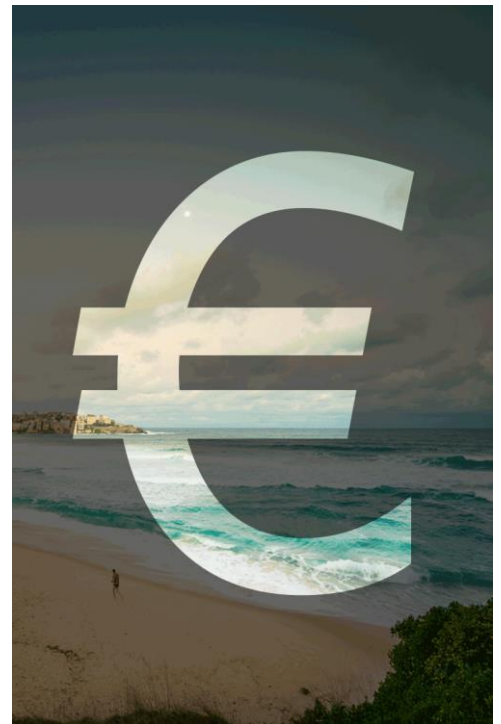




OBJECTIVES

- What retirement will cost you?
- Can you afford it?
- Key concepts in retirement planning



WHAT DOES RETIREMENT MEAN TO YOU?

- Dreams
- Fears
- Goals



1. WHAT DOES RETIREMENT MEAN TO YOU?

Dreams/Opportunities

- 1. _____
- 2. _____
- 3. _____

Fears/Challenges

- 1. _____
- 2. _____
- 3. _____

Goals/Outcomes

- 1. _____
- 2. _____
- 3. _____

How much will retirement cost you?



Lifestyle



Wage Replacement Ratio (WRR)



HOW MUCH WILL RETIREMENT COST YOU?

Lifestyle:

- How you spend your time, energy and money
- Generally correlated to income
- Most people wish to maintain their lifestyle in retirement



Wage Replacement Ratio:

- The percentage of your current income you will need to maintain a desired lifestyle in retirement
- Not a fixed amount or percentage
- Not the same for everyone. Depends on personal values, goals and decisions

Jane Doe, International Civil Servant

AGE: 59

RETIREMENT: 62

WAGES: \$125,000

Basic expenses	\$75,000
Discretionary expenses	\$25,000
Savings	-\$25,000
Current lifestyle cost	\$100,000
CHANGES EXPECTED IN RETIREMENT:	
Work-related expenses	-\$5,000
Mortgage	-\$15,000
Retirement lifestyle cost	\$80,000

WRR 64%

Jane Doe, International Civil Servant

AGE: 59
RETIREMENT: 62
WAGES: \$125,000

WRR 80%

Basic expenses \$75,000
Discretionary expenses \$25,000
Savings -\$25,000

Current lifestyle cost \$100,000

CHANGES EXPECTED IN RETIREMENT:

Work-related expenses -\$5,000
Mortgage -\$15,000

Retirement lifestyle cost \$80,000

INCOME TAXES +\$20,000

Retirement lifestyle cost \$100,000

**2. WHAT RETIREMENT IS GOING TO COST -
YOUR WAGE REPLACEMENT RATIO (WRR)**

RETIREMENT BUDGET AND WRR		
CURRENT INCOME		
L1	Wages	\$
CHANGES IN EXPENSES IN RETIREMENT		
L2	Expenses related to work	\$
L3	Regular savings from paycheck	\$
L4	Other expenses expected to end in retirement	\$
L5	Other expenses expected to drop in retirement	\$
L6	L2 + L3 + L4 + L5	\$
L7	Expenses expected to increase in retirement	\$
L8	New expenses expected in retirement	\$
L9	L7 + L8	\$
RETIREMENT LIFESTYLE COST		
L10	L1 - L6 + L9	\$
WAGE REPLACEMENT RATIO (WRR)		
L11	L10/L1	%



HOW MUCH WILL RETIREMENT COST YOU?

 **Inflation** **Life Expectancy**

HOW MUCH WILL RETIREMENT COST YOU?

Inflation:

- The gradual rise in the cost of goods and services over time
- Potentially harmful to retired persons on a fixed income

Jane Doe, International Civil Servant

Inflation assumption	3%
Life Expectancy	95
WLE	3
RLE	33
Retirement lifestyle cost	\$100,000 per year
In three years	\$109,250 per year
In 25 years, at age 84	\$209,000 per year



HOW MUCH WILL RETIREMENT COST YOU?

Life expectancy:

- An assumption based on objective data
- Can be divided between:
 - Working Life Expectancy (WLE)
 - Retirement Life Expectancy (RLE)

Jane Doe, International Civil Servant

Inflation assumption	3%
Life Expectancy	95
WLE	3
RLE	33
Retirement lifestyle cost	\$100,000 per year
In three years	\$109,250 per year
In 25 years, at age 84	\$209,000 per year
TOTAL OVER 33 YEARS	\$6,300,000

Can you afford your ideal retirement?

- ⌘ Annuity
- ⌘ Retirement income streams



CAN YOU AFFORD YOUR IDEAL RETIREMENT?

Annuity:

- A fixed sum of money
- Paid with a regular periodicity, typically for the rest of your life
- Under a contractual arrangement with a financial institution



CAN YOU AFFORD YOUR IDEAL RETIREMENT?

Income Streams:

- Pension
- Social Security
- Other annuity
- Alimony
- Rental income
- Royalties

3. HOW YOU WILL PAY FOR RETIREMENT-
INCOME STREAMS (MONTHLY OR ANNUAL)

	Amount	Start date	End date	Indexed	Survivor
Pension benefit					
Social Security benefit					
Rents					
Royalties					
Other					
Other					

Income in retirement		Sum of amounts above
Retirement lifestyle cost		Line 10 from Worksheet 2
Surplus (Deficit)		Income minus Expenses

Jane Doe, International Civil Servant

RETIREMENT INCOME

Annual pension	\$75,000
Social Security	\$10,000
Total income in retirement	\$85,000
Retirement lifestyle cost	\$100,000
Surplus (Deficit)	(\$15,000)



CAN YOU AFFORD YOUR IDEAL RETIREMENT?

- **Capital**
- **Rate of return**



CAN YOU AFFORD YOUR IDEAL RETIREMENT?

Capital:

- Savings set aside during our working lives
- Cash and investments
- Investments include stocks, bonds and saleable assets, such as real estate and collectibles (artwork, antiques, jewelry, etc.)

4. JANE'S CAPITAL INVENTORY

	Value	Notes
Cash	-	
Savings accounts	\$250,000	\$50,000 reserved to pay off mortgage
Investment accounts	-	
Primary residence	\$500,000	\$50,000 owed on mortgage
Secondary residence	\$150,000	Not available for sale
Rental property	-	
Share of business	-	
Share of trust	-	
Collectibles	-	
Other		
Other		
TOTAL AVAILABLE FOR RETIREMENT	\$200,000	



CAN YOU AFFORD YOUR IDEAL RETIREMENT?

Rate of return:

- The rate of appreciation of capital and assets, under contractual terms or market forces



Capital Needs Analysis:

- Determine what amount of capital is needed to finance a desired lifestyle
- Determine the amount of monthly savings needed during the remaining Work Life Expectancy to accumulate that amount of capital

Jane Doe, International Civil Servant

Retirement Income	\$85,000
Cost of her desired lifestyle	\$100,000
Deficit	(\$15,000)

What is the Jane’s capital need to finance her retirement?

Can Jane accumulate that amount of capital before she retires?

5. JANE’S RETIREMENT PLANNING VARIABLES AND ASSUMPTIONS

		Initial assumptions	Revised assumptions
L1	Lifestyle (circle one)	+ - =	+ - =
L2	Age today	59	
L3	Retirement age	62	
L4	Life expectancy	95	
L5	WLE (L3 – L2)	3 year(s)	___ year(s)
L6	RLE (L14 – L3)	32 years	___ years
L7	Gross wages	\$ 125,000	\$ _____
L8	Wage replacement ratio	80%	___%
L9	Retirement savings	\$ 200,000	\$ _____
L10	Rate of inflation	3%	___%
L11	Required rate of return	6%	___%

Thank you