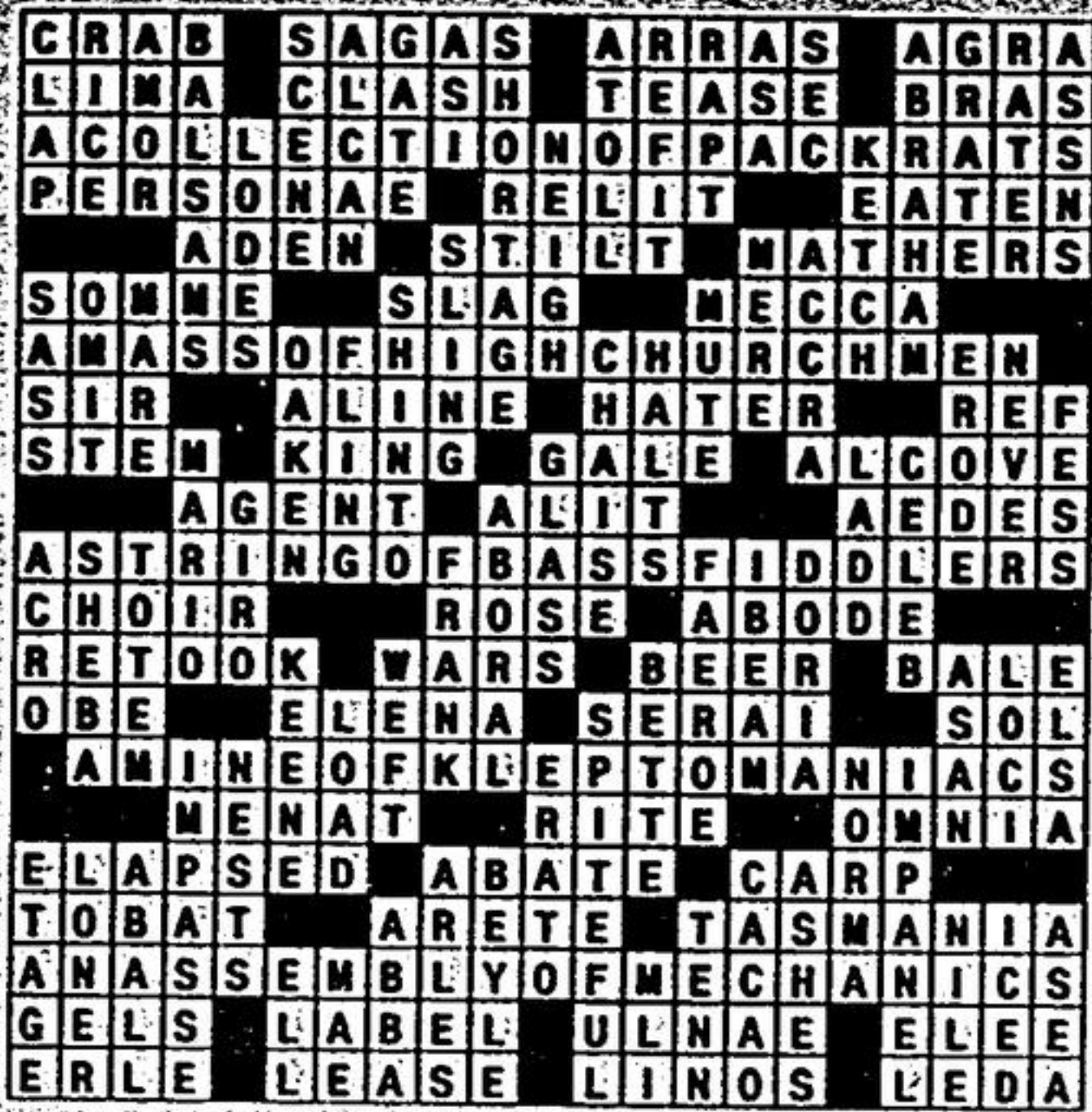
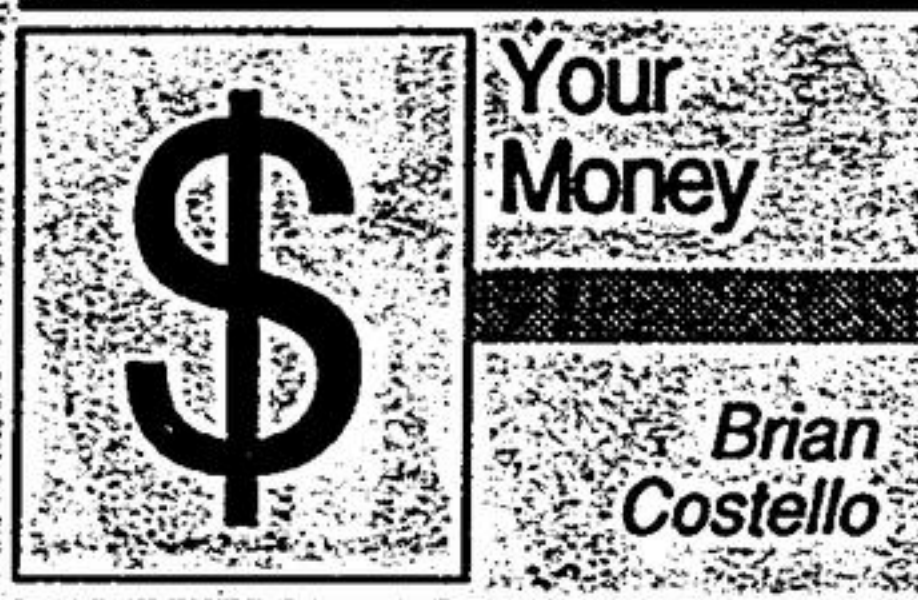


ANSWERS



Looking ahead for the good life upon retirement



Have you ever given any thought to how much money you will need to give you "the good life" when you retire? Most of us give it lip service. We figure we'll be okay when it finally happens. The company pension plan, Canada Pension, Old Age Security benefits, our RRSPs and, of course, the family house. Well, I don't think it's going to be that easy. If there's one thing we've learned in the last few

years surely it's that the federal and provincial governments don't have the money anymore. We just cannot count on automatically receiving the benefits our friends and relatives took for granted. Why, even the RRSP is threatened if you believe the rumors out of Ottawa. It would pay to take a few minutes to rationally calculate what you might need come retirement time. Most financial planners suggest you think along the lines of providing about 70-per-cent of your salary for your retirement. I have a problem with that. Their rationale is that you won't pay as much tax. But anybody who is retiring today is in a far higher tax bracket now. Another thought is you don't

require as much for clothing, transportation, out of house meals etc. when you are retired as you are home more. If I were retired I'd like to think I could now spend a lot more time travelling and enjoying my hobbies. But, a substantial percentage of retirees have mortgages or cannot afford a house. And, wouldn't it be nice to help out the grandkids? The trick is to look ahead. You can't use today's income as a gauge if you are going to retire some years down the road. Inflation will demand you earn more each year. As a result, it's 70 per cent or whatever per cent you are prepared to accept of the income you will be earning when you retire. How much will that be? Let's say you are 40 years of age and earning \$50,000 a year. Decide what level of inflation we will average between now and the time you want to retire. The average over the last generation is six per cent. However, rates are lower today. Let's say they average four per cent. You will need to double your salary every 18 years just to maintain your present standard of living. At age 58 you will need to earn \$100,000 a year just to keep up. At retirement time it will be closer to \$150,000. If you want to retire on 70 per cent of that you will need more than \$100,000 a year. The problem is you can't quit there. That's what hurts so many retirees. They set a fixed amount in their minds. But, they forget they still have to double that amount every once in a while during retirement. This example is dangerous as it uses numbers above \$53,000 where Old Age Security is clawed back. However, even if you set \$30,000 as your desired rate you would need \$60,000 in 18 years. So, don't count on Old Age Security. Then we have our pensions. Fewer than half the country has a pension. And, the recession toll eliminated so many jobs that fewer will enjoy pension benefits. The trick is to decide how much income you want when you retire. Ask your financial planner to calculate how much your pension will provide at that time. Is it indexed so it will rise in value offsetting the impact of inflation? Subtract the monthly pension from the amount you need. Now you can see the shortfall. You can also subtract your expected Canada Pension plan payments from the shortfall. Decide the rate of return you think you will be able to earn on your investments. It would be nice to think double digits. However, if you prefer interest bearing investments you should use today's lower rates. If interest rates rise you will find things easier. If they don't you won't feel a shortfall. It's a matter of being realistic. The younger you are the more time is on your side. The older you are the faster you have to react.

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