RRSP/DPSP Possibilities

Retirement! All workers dream of the day when they are finally able to do all they want to do without having to report to a workplace for their daily financial needs. Some plan for that day and feel comfortable about their prospects, while others tend to avoid planning or even thinking about it. Those that do not plan usually feel it is too early or maybe too daunting a concept. But plan you should, unless you are comfortable to get to retirement financially unprepared. But, how much do you need to retire in Canada?

According to Statistics Canada, the pre-tax median retirement income for senior families is $65,300 per year. That is not the average income but the median income. That is, there are as many families with earnings more than that as there are families making less than that. Everyone has different incomes, expenses, and goals though, which means there is no one-size-fits-all approach when it comes to retirement savings.

Without getting into particular scenarios, let’s see what it would take to get to this median Family income, assuming you are an average retiree. If both you and your spouse are over 65, the current OAS available to you (as a couple) would be $16,452 per year. Additionally there would be CPP funds available to both, or to you alone. The maximum amount of CPP today is $1253 per month. Many people do not get this amount. In fact if you retire early you will be subject to a reduction based on the number of months prior to age 65.

To make things easy let’s assume each spouse gets an average of $1000 per month or $24,000 per year as a family from CPP. Together with OAS, the family income for this particular couple would be $40,452 from government sources. This would mean that you need other sources of income to cover the gap of about $25,000 to reach the median $65,300 indicated by statistics Canada. This is where your RRSP/DPSP plan comes in.

This longstanding provision in the CBA currently allows members to contribute up to 6.25% of their regular income (which is tax deductible), and receive a matching contribution of 6% by the company. There is a whole lot more to say about how these funds can grow over time. I will not go into that area. Suffice to say that over a work life of 30 years these funds can easily grow to more than $600,000 (depending on a number of factors). The question here is: what would you need to cover the $25,000 gap mentioned above? **Using a rather conservative approach without much risk, a fund of $450,000 paying an average of 3.5% per year would be sufficient to cover this for at least 30 years.** Anything above that would be a bonus. With current GIC rates at 4.5 to 5% for 5 year terms, this is totally doable. But you need to plan for it. And not only plan, but actually do it. **Time in the plan is key.** And now you know.

And in case you are wondering, this is what is possible to achieve through the RRSP/DPSP plan over time.

Starting with some basic initial assumptions:

Initial wage per hour	$30.00
Contribution rate	6.25%
Company Matching	6.00%
Assumed Inflation rate	2.00%

End results under different rates of return:

Average rate of return	**3.00 %**	**4.00%**	**5.00%**
Years in Plan 15 years	$162,129	$173,920	$186,784
Years in plan 20 years	**$244,733**	**$269,518**	**$297,441**
Years in plan 25 years	$346,405	$391,843	$444,817
Years in plan 30 years	**$470,795**	**$547,324**	**$639,696**
Years in plan 35 years	$622,201	$743,837	$895,909