



Sick of Working? Here's What You Need to Retire Now

Description

It's a dream most of us secretly have. We'll wake up tomorrow, call the office, and tell our boss that this is *it*, the day has come: we're throwing in the work outfit for a set of golf clubs and a comfy couch. We're *retiring*.

For some people, that may seem outlandish. For others, it's a dream that's closer than they think. How do you know if you can truly retire right now? Let's take a look to see how much money you might need.

Think “income,” not “savings”

One mistake people make is to think about retirement goals in terms of how much savings they need. It's easy to fall into this trap. You think, “Oh if I just save \$1 million, I should be fine, right?”

Well, not always.

Setting savings goals is helpful, sure, but when it comes to retirement, it's better to think about how much *income* you need. In some cases, \$1 million will give you enough annual income to last the rest of your life. In other cases, such as when you live longer than you expected, you'll need more than \$1 million in income.

So, how much income do you need?

In sum, a lot. Probably more than you ever thought you'd need.

One rule of thumb financial experts throw around is the 80% rule. In order to retire comfortably, so this rule says, you need to replace 80% of your current annual income.

If you make \$100,000, for instance, then you should expect to spend around \$80,000 per year in retirement. Multiply that by the years you expect to stay alive (don't go cheap on yourself), and you'll

have an idea of how much you'll need to never work again.

That gives you a number to aim for. But it may not be totally accurate. If most of your income is going toward savings right now — because, well, you're trying to retire — with your expenses being fairly low, you may be able to live off less than 80% of your annual income.

So perhaps a more accurate way of looking at annual retirement income is to consider how much you're spending right now. If you can get a good idea of how much you spend a year, then you can estimate how much you'll need to live your current lifestyle.

Of course, certain expenses change when you retire. You may not drive to work as often, cutting your transportation and vehicle costs significantly. Or you may expect your healthcare costs to rise in the future. Either way, if you can figure out how much you spend a year (in theory), you can get a good idea if you have enough saved right now to last you the rest of your life.

Don't forget about pensions and investments

Fortunately, you don't have to rely on your savings alone. If you worked and paid into a pension plan, such as the Canada Pension Plan (CCP), then you'll get payouts from those.

Investments come in handy, too. In fact, investing is one of the most powerful ways to build substantial retirement wealth. If you're looking to retire early, you can follow the way of the Financial Independence Retire Early (F.I.R.E.) movement and invest your money in dividend-paying stocks or index funds that pay out a hefty amount in interest. With interest from investments, payouts from a pension, and money from your savings, you should have enough to meet your annual income requirements.

The verdict: Can you retire comfortably?

If so, great. You made it. If not, don't push. Continue to invest money in stocks and funds, as well as paying off debt and keeping your finances afloat.

If [retirement planning](#) still feels elusive, you can always seek help from a certified financial planner. These financial experts can help you make retirement plans, hit savings goals, and possibly even help you manage your investments.

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