

Modest, but enough: Two middle-class couples share their retirement budgets

You don't need six figures to get the most out of your golden years, David Aston writes.

Opinion May 21, 2023 by David Aston Contributing Columnist

It's easy to be intimidated into thinking you need a lot of money to retire comfortably.

The media is full of stories and advertising promoting luxury lifestyles. That can lead you to believe you need to spend six figures to get the most out of your golden years.

The truth is, plenty of typical middle-class Canadians live comfortable and satisfying retirements on much more modest budgets.

To demonstrate this, we present examples of two Ontario couples' retirement spending budgets provided by Janet Gray, a certified financial planner with Money Coaches Canada, based on her work with clients. (Names and other identifying details have been changed to protect their privacy.)

A couple we'll call Sheila and Tom live in a small Ontario town and are planning a modest annual retirement spending budget of \$58,000. Louisa and Allen live in a mid-sized Ontario city and are planning a moderate-sized budget of \$77,000.

Spending is one key factor among several in determining the size of nest egg you'll need in retirement. In my next column, I will show how to fit these factors together to do that.

Of course, living comfortably on a modest budget is a lot easier if you own a home mortgage-free and don't carry other debt into retirement, as is the case with these two couples. Renters in high-rent locales like Toronto will generally need to spend more on shelter to enjoy an equivalent lifestyle. I discuss the added costs for renters later in the article.

It should also be noted that realizing a comfortable retirement is generally easier for couples than singles. That's because couples can share costs for things like vehicles and accommodation, which makes costs lower on a per person basis. I plan to provide retirement spending examples for singles in a future column.

Needs vs. wants

To figure out how much you should spend in retirement, Gray says you should start with getting a good handle on how you spend your money today. Then assess how that will shift when you retire. “It starts with knowing what your lifestyle costs and adding in how your lifestyle will change.”

It’s always nice to have more money, but Gray says a key thing is to distinguish how much you truly *need* for a comfortable middle-class retirement versus what you might *want* to have. If your finances are tight, you may be able to cover the needs, but have to prioritize carefully among the wants.

Of course, it makes it easier if your wants are fairly modest, as the example of Sheila and Tom illustrates. They are in their late fifties, live in a modest bungalow in a small Ontario town, and plan to retire in several years.

They have gotten used to a frugal lifestyle while working and are very comfortable planning an annual retirement budget of \$58,000 for the initial phase of retirement. As it turns out, their expected employer and government pension income should exceed their planned spending. “So they will actually create additional savings in retirement,” says Gray.

Sheila and Tom enjoy the simple things in life close to home. “They like gardening. They like crafting. They’re not a travel couple,” says Gray. “They have simple needs. They’re thrilled to have this.”

Meanwhile, Louisa and Allen plan for more of the enjoyable extras in retirement. They are in their mid-sixties and live in a moderate-sized, ranch-style home in a mid-sized Ontario city. Louisa is already retired and Allen expects to retire later this year. After Allen retires, they expect to spend \$77,000 a year initially.

Compared to the other couple, Louisa and Allen expect to spend a similar amount overall on the basic categories. The big difference is “they have a lot more discretionary expenses,” says Gray. “A good chunk of their budget is because they have a cottage and want to travel.”

Renters

Both couples expect to retire owning single-family homes mortgage-free. While that provides a reasonable benchmark for other debt-free homeowners, renters generally need to spend more to enjoy an equivalent lifestyle.

If you have very limited means, renting a single-family Toronto home is probably beyond reach. But renting a more modest one-bedroom apartment is far more likely to be attainable. If you’re looking to ballpark a basic-level retirement spending budget as a Toronto renter, allow about \$20,000 a year for shelter costs for a one-bedroom apartment as a replacement for homeowner shelter costs. That figure is very close to the current City of Toronto Average Market Rents and Utility Allowances figure for a one-bedroom apartment that is used as a benchmark by the city in connection with its affordable housing program.

That adjustment would entail adding about \$7,000 to \$8,000 to support the overall lifestyle described for Sheila and Tom, in which case the adjusted overall spending budget would be about \$65,000 or so. In the case of Louisa and Allen's spending budget, a figure of \$20,000 for renting comes close to their existing homeowner shelter budget. In that case, no major adjustment should be required.

Taxes

The spending figures described so far for the two couples excludes spending on income taxes. To give you a rough idea what the income tax bill would amount to, I have estimated taxes using the income tax calculator at taxtips.ca based on a typical scenario in Ontario. (Key scenario assumptions are described in a note to the accompanying table. The real-life tax situations of the two couples are somewhat atypical and so don't provide good benchmarks.)

For a senior couple age 65 or older to generate annual combined after-tax income of \$58,000, they could expect to generate before-tax income of about \$61,300 and pay income taxes of roughly \$3,300 combined. To generate combined after-tax income of \$77,000, they could expect to start with \$85,500 before tax and pay about \$8,500 in taxes.

[David Aston](#), a freelance contributing columnist for the Star, is a personal finance and investment journalist. He has a Chartered Financial Analyst designation and is author of "The Sleep-Easy Retirement Guide," published in 2020. Reach him via email: davidastonstar@gmail.com