Don’t Fall for These 3 Retirement Myths

Description

Retirement is supposed to be the greatest time in your life. After all, you’ll likely spend the better part of four decades working for the man. After that many hours, I think you’ve earned the right to put your feet up.

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But, surprisingly, retirement can be stressful. Running out of money is a constant threat. And some people just can’t handle doing nothing all day after 40 or 50 years of hard work.

Then there’s the time shortly before retirement. Many people spend their last decade at work scrambling, trying to make up for lost opportunities. Much time and effort is taken to figure out the exact right moment to exit the workforce, too.

It’s only natural to worry a great deal about retirement. After all, it’s the reason why most of us save. But at the same time, you must be careful not to overanalyze it.

Here are three common retirement myths you probably believe.

You need millions

We’ve all heard it before. To get a reasonable middle-class retirement, you’ll need at least a couple million bucks in the bank. Possibly more.

The 4% rule confirms this. According to the best minds in finance, a retiree can only withdraw 4% of their nest egg per year and not risk running out of money. So, if you end up with $1 million by the time you retire, only $40,000 per year can be withdrawn safely.

That doesn’t seem like very much, but it’s likely plenty, especially for a couple with a paid-off house.

First off, almost every Canadian can expect a reasonable amount of money from the Canada Pension Plan (CPP). Many will also qualify for Guaranteed Income Supplement. If each spouse gets only $500 per month from CPP, $40,000 turns into $52,000 in income.

And remember, many passive investments — especially dividends — get preferential tax rates versus earned income.

Then there are expenses. The average retiree doesn't spend nearly as much as an employee. There's no commute, no buying business clothes for work, and no downtown parking. Most retired couples can easily get by with one car, and eating out expenses go down as well.

You'll pick the day

In our 20s and 30s, most have the same vision of retirement. One day, after much thought and deliberation, you finally decide to hang up the proverbial skates. Work throws you a big retirement party and you ride off into the sunset.

Reality is often much different. Thousands of Canadians between 50 and 60 have been forced to retire, essentially shoved out the door during a round of layoffs.

Their crime? Simply being part of a bloated middle-management team that expanded too much during better times.

The solution to this? Don't wait until you're 40 to start saving for retirement. Start in your 20s or 30s, just in case you really need that cash in your mid-50s.

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Stocks are too risky

We all know a retiree who is petrified of the stock market, choosing instead to keep their capital in GICs that barely earn 1.5%.

They don't know it, but these retirees are actually taking a bigger risk than those who are 100% in stocks.

Think about it. Even if you have $1 million in retirement savings, that capital invested at 1.5% will spin out a mere $15,000 a year. That's not enough. Meanwhile, a portfolio yielding 4% will generate $40,000 in passive income with capital gains potential.

A stock like **BCE Inc.** (TSX:BCE)(NYSE:BCE) is the perfect retirement investment. It delivers predictable cash flows that are given back to investors in the form of generous dividends. BCE shares currently yield 4.7% and have a history of growing the dividend faster than inflation.

Another great retirement stock is **Fortis Inc.** (TSX:FTS)(NYSE:FTS), which has grown into one of North America's largest utility stocks with assets across Canada and the United States. And, perhaps most importantly for retirees, Fortis has hiked its dividend each year since 1972, and shares currently yield 3.6%.

The bottom line

Retirement doesn't have to scare people as much as it does. You'll likely need less than you think to have nice golden years, and ensuring enough income will be as easy as watching the dividends roll in.

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