Canadian Savers: Are You Making This Surprising Retirement Mistake?

Description

Canadians are about to get hit hard by a retirement crisis, or so all the pundits say.

The refrain is always the same. The average Canadian saver doesn't have nearly enough saved up for retirement. In fact, many Canadians in their 30s, 40s, or even in their 50s have yet to begin putting aside serious money for their golden years, as other financial responsibilities just keep getting in the way. Some are working hard to pay off the house, or put their kids through school. And others just can't seem to get ahead, no matter what they do.

I, for one, disagree with this assessment — at least, a little bit.

Many of the people pounding the table on this so-called crisis are employed by the financial services industry — a business that benefits from additional assets under management. These folks also lament the lack of pensions for the average employee and huge living expenses in major Canadian cities, without spending any time focusing on positives like Canada Pension Plan income or Old Age Supplement helping out low-income retirees.

In fact, there are thousands of Canadian savers who are doing the exact opposite of this issue, and hardly anyone is noticing. It's even starting to become a pretty big problem.

Are you saving too much?

I believe a significant portion of Canadian savers will have an interesting problem come retirement. They'll be sitting on a substantial nest egg of several million dollars with no plan of how to spend it all.

At first glance, this hardly seems like a very big issue. Try going down to your local watering hole and complaining about having too much money. You'll have no shortage of volunteers who will gladly accept a cheque.

But over-saving for retirement is still a problem. We've all heard the stories about the couple who plans to see the world once they quit work, only to be denied by health problems or premature death of one of the spouses. Yes, extra cash can always be given away, but inheritances can be tricky business sometimes, especially in large families.

And then there's the tax situation. If a significant portion of your assets are tucked away in RRSPs, you'll need to pay taxes upon withdrawal. That can really add up, especially if there's $1 million or $2 million that must be converted from a registered account before you can spend it.

How you can avoid this fate

There are a few strategies you can take to avoid over-saving for retirement.

The first is to run the numbers. For example, say you're 40 today and you have $500,000 invested. At just an 8% return, you'll be sitting on $3.4 million by the time you hit a traditional retirement age. At that point, maybe it's time to let off the gas a little and spend more money on your present self.

TFSAs can also be utilized to reduce taxes down the road. For example, if our 40-year-old saver added $6,000 to their $500,000 nest egg each year, the portfolio would be valued at $3.9 million at age 65, but the tax liability would be the exact same.

Once you run the numbers and get a vague idea of what your future financial picture looks like, the result must be trusted. This means that if the future looks pretty rosy, it's time to scale back on saving. At this point, you could start taking extra trips, spoiling your kids, or look at upgrading your home.

The bottom line

Chances are, if you're reading this, you care more about finances than the average Joe. You're more likely to be suffering from this over-saving issue.

If the heavy lifting is already done, it's okay to relax a little bit. In fact, it's time for congratulations. After years of sacrifice, you've gotten yourself to the point where as long as you don't screw it up, retirement is secure. That's a pretty powerful feeling. Just remember, there's no need to overdo it.

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