Warning: Don’t Make the Same Retirement Mistake As 14.6 Million Canadians

Description

More than a third of Canadians are simply not ready for retirement. A new poll by accounting firm BDO Canada Ltd. found that 39% of Canadians have little to no retirement savings. That’s an estimated 14.6 million people in a country with 37.6 million citizens.

Despite the results of this survey, I believe Canadians are better prepared for retirement than they expect, but still not as ready as they should be. Here’s a closer look.

The biggest retirement mistake

Not having retirement savings set aside is probably the biggest mistake anyone can make. However, I believe this isn’t the core issue in Canada. Canadians may not have set cash aside for their later years but they have invested heavily in an asset class that has delivered stunning returns – real estate.

The price of an average home in Canada has more than doubled in the past 15 years. According to the Teranet–**National Bank** House Price Index, the average home across Canada’s largest 11 cities has risen 138% since 2005. The average home is now worth $504,000 and most Canadians (67.8%) are homeowners.

These numbers paint a better picture than the ones I mentioned previously. The average Canadian family has built robust wealth in their primary residence. They’ve also invested in rental properties. Most Canadians expect to rely on the income from these homes to fund their retirement.

However, there are two problems with this strategy. First, the gross rental yield on properties is historically low (3.9%). Second, keeping all your eggs in one basket is potentially risky. A housing market crash could destroy tremendous wealth and jeopardize your retirement.

Avoid the pitfall

To avoid this pitfall, I suggest diversifying your wealth into an asset class that is just as attractive – dividend stocks. Stocks like **BCE Inc.** (TSX:BCE)(NYSE:BCE) have the potential to offer returns that are just as stable and attractive as (if not better than) real estate.

BCE stock offers a 5.9% dividend yield. That's nearly double the gross yield of the average Canadian property. Also, you don't need to maintain the stock, or pay for utilities or worry about damage the way you would in a rental property.

BCE's stock price has also been remarkably stable. The stock price has doubled since 2005. If you include the hefty dividends along the way, the total return is far higher.

In terms of stability, BCE is probably one of the best options an investor can hope for. The need for wireless data and connectivity is permanent. Every year, BCE accumulates more subscribers who need more data to stream movies and make video calls than ever before. The need for wireless data could be as resilient as the need for housing.

Now, I'm not suggesting you sell your family home and pour it all into BCE. But diverting just 10% of your rental income into a safe and stable dividend stock could safeguard your wealth from a potential housing market correction.

Bottom line

The biggest mistake Canadians make is relying too much on housing to fund their retirement. A little diversification into a robust dividend stock like BCE could go a long way in helping you achieve peace of mind, which is the cornerstone of a successful retirement.

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