Planning for Retirement? Here Are 3 Reasons Your Numbers Could Be All Wrong

Description

If you're saving for retirement, you're always going to be dealing with many unknowns. Where you'll live, how long you'll live for, what kind of lifestyle you'll want to maintain are just three variables that can be extremely difficult to forecast, especially if you're looking 10, 20, or maybe 30 years from now. A lot can change during that time. Here are just three reasons why your retirement plans could go awry.

Employers are moving toward defined contribution plans

If you've got a pension from your employer, then you're likely counting on that income during retirement. However, the risk is that employers are moving away from defined benefit plans where they bear the risk to defined contribution plans where it shifts onto you. There's no certainty as to the benefit you'll receive at retirement, and that can throw a big wrench into your retirement plans. It's more difficult for companies to offer defined benefit plans and to ensure they're adequately funded, but the alternative is that the employee faces much more uncertainty.

CPP isn't any safer

The Canada Pension Plan (CPP) is a key source of income for many Canadians in retirement, especially those who may not have much in savings. The problem here is that as Baby Boomers leave the workforce, there will be fewer workers contributing to the CPP in the future. That means the pool of funds will decline unless the CPP rate increases. And that's without even factoring in the increase in cost of living over the years. That's why it can be risky to rely on the CPP for a comfortable retirement.

Your expenses will likely vary

One of the items you can control is how much you spend during retirement, but that's not easy to predict. If you're planning to retire in an expensive city like Toronto or Vancouver and you don't own a home, rent prices could become a lot more expensive than you anticipate. Unless you're content with not going anywhere, you'll probably also need to budget for travel expenses and other leisure activities that could quickly add to your overall expenses. There are too many possible variables to count when it comes to expenditures that make this one of the biggest wildcards in your retirement planning.

What should you do?

The one thing that you can do today is to start setting money aside into a Tax-Free Savings Account (TFSA) if you haven't done so already. It's a great way to save for retirement since the income you earn in a TFSA isn't taxable, even when you go to withdraw the money.

Dividend stocks are particularly attractive inside TFSAs, since they can keep the recurring income coming and be an additional source of cash flow for you, whether it's during retirement or as you're saving up for it. **BCE** (TSX:BCE)(NYSE:BCE) is a top stock to invest in and one of the best things about it is that it's stable and can produce a lot of dividend income. Currently, it pays a quarterly dividend of $0.8325, which yields 5.9% annually. On a $25,000 investment, you'd be earning a little under $1,500 per year just in dividends. That's in addition to the gains the stock would also achieve over time.

Between media, telecommunications, and even interests in sports teams, BCE is well diversified, and that's a key reason why the stock has a very low beta, meaning that it doesn't follow what can sometimes be wild swings in the market. It's an investment that is suitable for long-term investors and retirees. By investing in BCE and putting the stock in your TFSA, you can put yourself in a much stronger position come retirement, regardless of how these other factors play out.

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