Canada Revenue Agency: Avoid This #1 Retirement Mistake

Description

When planning for retirement, soon-to-be retirees focus more on savings, nest eggs, and pensions. Many chase after the magic number, which is relative. However, seniors often overlook one critical component: spending in retirement — how much they need and for how long.

Retirement goals vary per individual. Some desire frugal living, while others prefer a middle-class or deluxe lifestyle. Whatever dream you have in the sunset years, do not underestimate your spending. Avoid this number one retirement mistake. Otherwise, the financial strain might be too much to handle.

Readiness to retire

Ideally, retirement readiness is when you have replaced 100% of your average pre-retirement income. It assures a retiree of comfortable living, including the capacity to cope with rising basic living expenses.

The Canada Pension Plan (CPP) and Old Age Security (OAS) are the foundations in retirement, although not enough to meet all financial needs. It would be best for Canadian retirees to fill the shortfall by adding income sources on top of the pensions.

Retirement shock

The shock of many with only pensions as anchors is that they can't live the same lifestyle and enjoy the same things as before. It would be a radical change if you did not prepare or take retirement planning seriously. Since life expectancies are longer, expect an extended retirement, too.

It's not safe to assume that spending decreases in retirement, because there are other factors to consider. Medical expenses or long-term-care costs could eat up a significant portion of the budget. You might have future travel plans, too.

Common-sense advice from retirement experts is for would-be retirees to create a realistic budget. List your current expenses as well as your forecasted or projected expenses. Add up all costs to see how much you have left. From there, you can determine, more or less, how much more recurring income you would need.

Lifetime investment income

Royal Bank of Canada (TSX:RY)(NYSE:RY) can be your other retirement income source. If you can increase your ability to save beginning today and invest in this blue-chip stock, your dividend earnings could be more than your CPP and OAS pensions. More so, the investment income could last for decades.

By market capitalization ($148.38 billion), Canada's largest banking institution pays a 4.14% dividend and maintains a payout ratio of less than 50%. Its 150-year dividend track record is a mean feat, inclusive of the worst recessions and financial crises.

RBC is an excellent anchor for income investors. Buy the stock and never sell again. That's how dependable the bank stock is if you need financial stability in retirement. Despite its massive loan-loss provisions in the first half of 2020, the bank reported a net income of $8.2 billion during the period.

If you're worried about the headwinds in the banking sector, it's worth knowing that rating agency Moody's Investors Service recently affirmed its stable outlook for RBC. The bank's solid credit profile is due to its high asset quality and steady earnings.

It's not rocket science

As mentioned, there's no magic number as the retirement fund is relative. Some could live on 70% of their current income. The important thing is you pay yourself first by putting money into savings before spending. Start today.

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