Are You Saving Too Much for Retirement?

Description

Most Canadians generally factor in longevity risk, inflation, long-term care costs, and taxes when preparing for retirement. Although defined pension plans and government benefits are lifetime incomes, you still need to save more to live comfortably in retirement.

However, you don't need to be manic about neutralizing the potential risks in the sunset years. If you do, the result is often over-saving. Saving too little is risky, but should you overdo do it in pursuit of a seven-figure nest egg?

There must be a balancing point

Retirement planning is a serious undertaking. Avoid procrastinating as it could lead to your inability to save. If you live it up at the moment and spend as if there's no tomorrow, you put yourself in a precarious situation.

On the flip side, you could deprive yourself of joy if your focus is entirely on tomorrow. Accumulating a seven-figure balance sheet is indeed a financial success. However, there's must be a balancing point. You're overdoing saving activities if it's keeping you from living the life you want right now.

Multi-step process

Enjoy life now while saving and preparing for retirement. Understand, too, that that it's a multi-step process. First, know your time horizon. An early start is ideal to have more leeway. Determine your spending needs next and not under-estimate retirement expenses. Make sure your expectations are realistic.

If you're supplementing your pensions with investment income, assess your risk tolerance against investment goals. Balance your risk aversion and rate of return while ensuring you produce the needed income in retirement. As much as possible, investments must be in tax-advantaged accounts.Likewise, the portfolio should be able to withstand the market's volatility for years.

Last, stay on top of your estate planning, including life insurance, because you also need to protect your asset base. Its distribution should be to your liking in case of death or disability. In Canada, you can take advantage of tax breaks to minimize income arising from death. The lower the tax, the more funds would be for heirs or loved ones.

Ever-reliable income stock

When building retirement wealth, choose your income-producing assets carefully. You won't need to touch your money or shift to other investments for 20 years or more if the **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is your core stock holding. The bank stock is investor-friendly, given its unmatched 191-year dividend track record.

BMO is the first company ever to .pay dividends. The fourth-largest bank in Canada didn't falter with dividend payouts despite numerous recessions through decades and the cyclical nature of the market. In the 2020 pandemic, the blue-chip stock is proving its resiliency and stability once more.

The stock price is back to its pre-corona level after tanking to a low of $53.95 on March 23, 2020. At $97.25 per share, the dividend yield is 4.36%. If you invest $150,000 today, the recurring income stream per quarter is $1,635. In an investment horizon of 25 years, your nest egg would be $435,956.36.

Pragmatic approach

Aggressive saving is a risk because you might burn out when you get to the retirement exit. The pragmatic approach is to increase your future ability to save as early as you can instead of saving money at all costs. You can still achieve your long-term financial goals while maintaining balance in life.

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