Retirement Planning Isn’t a Hit or Miss Affair

Description

Young and old Canadians are growing more concerned about managing finances than ever before due to the uncertainty brought by the global pandemic. The general assumption, however, is that seniors are better money managers than the younger generation.

Retirement isn’t a hit or miss affair. Planning should begin as early as possible because future financial health is at stake. Furthermore, life is different when you reach the retirement years. The demands could even be more challenging than in your working years. Hence, seniors must have the foresight and know the ways retirees mishandle their finances.

1. Rush to claim pension

Many Canadians prefer to start Canada Pension Plan (CPP) payments when it becomes available at 60. The early take-up is practical for individuals with health issues or need for instant cash. However, and barring these concerns, it may not be the wisest move from a cash flow perspective.

While the CPP is guaranteed income for life, there’s a financial risk with the early option. The pension reduces by 0.6% per month before 65. If you take your CPP at age 60, the consequence is a 36% permanent decrease in pension payments.

2. No grasp of longevity risk

The current life expectancy for Canada in 2021 is 82.66. After 2017, it has been increasing by 0.18% every year. Older people today have healthier lives and live longer. Statistics Canada predicts life expectancy to rise by two years over the next 15 years. If you fully grasp the longevity risk, consider delaying the CPP until 70 for a more generous payout. The financial incentive is a 0.7% per month increase after 65 or 42% overall.

3. Not retaining financial literacy

Possessing the ability to retain financial literacy is equally important. Apart from a realistic budget and minimal (or zero) debt before retirement, you must have a reliable plan that produces sustainable lifetime income. Defined benefit programs like the CPP are partial replacements only of the average pre-retirement income.

Canada has two excellent savings vehicles, Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP), to help soon-to-retirees obtain financial security when they retire. Account-holders can invest in dividend stocks to create passive income streams on top of the regular pensions.

Low-risk investment for retirees

AltaGas (TSX:ALA), a low-risk, high-growth stock, is ripe for the picking at less than $20 per share. Young and old investors would feel at ease with the business model of this $5.55 billion diversified energy infrastructure company. Its high-growth assets consist of regulated distribution utilities, midstream, and power services.

The current dividend yield is 5.04%, where the dividend growth rate over the last five years is 6.9% CAGR. Your payouts should be sustainable given that medium to long-term contracts support almost 75% of normalized EBITDA. AltaGas' near-term priorities are to drive performance and achieve organic growth. The company's primary focus is the midstream and utility markets in the U.S.

The key to retirement success

The ongoing CPP enhancements are reforms that aim to increase pension amounts and stabilize future retirees' financial situation. But the key to comfortable living is a well-executed retirement strategy, where the anchor investment is an all-weather utility stock. The dividend income should replace your lost income upon retirement.

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Date
2025/08/24
Date Created
2021/02/22
Author
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