3 Reasons to Delay Retirement Past 2022

Description

If you’re approaching the age of 60, you’re probably looking forward to retirement. You’ve worked all these decades to get to this point; why would you want to delay it any further? That’s the thinking that drives many people to retire early. But, in fact, it may be a good idea to delay your retirement past 2022. Not only does CPP go higher the longer you wait to retire, but there’s also inflation to think about. The truth is, there are many reasons to delay your retirement past 2022. Some of these pertain to the economy in the year 2021, others are evergreen. With that in mind, here are three good reasons to delay retirement past 2022.

Reason #1: Inflation

Inflation is the number one fear of all retirees. Particularly devastating for those on fixed incomes, inflation is the “i” word that is getting mentioned more and more frequently lately.

As you may have heard, inflation is particularly high in 2021. Canada’s most recent inflation rate was 4.7% — very high by the standards of recent history. Part of that is base effects: there was barely any inflation in 2020. But it also stems from supply shortages and easy monetary policy. The monetary policy is going to tighten up next year, but you never know what will happen with supply chains. So, it pays to work another year if you can. Every year of work past 60 means higher CPP payouts — crucial to battling inflation.

Reason #2: Low savings

The most obvious reason to delay retirement past 60 is not having enough savings. If you only have $100,000 in the bank and no employer-sponsored pension, you just won’t be able to make ends meet on CPP. Canada’s national pension doesn’t cover rent in most cities, and it probably doesn’t cover anybody’s total living expenses anywhere. Averaging a mere $619 per month, it is truly paltry. If you haven’t got a boatload of savings on top of your CPP, you may have to work a little longer.

Reason #3: More time for investments to grow

A third and final reason to delay retirement past 2022 is because it gives your investments more time to grow.

If you're like most retirees, you probably have some of your money invested in index funds, like **iShares S&P/TSX 60 Index Fund** (TSX:XIU). These funds, when based on North American stocks, usually return about 10% a year with dividends included. That's a pretty decent return. But the longer you leave your money in them, the greater your return ultimately is. At 10% compounded, your investment doubles in just seven years. So, you could grow a $500,000 savings account to $1 million in seven years at such a rate of return. Funds like XIU don't guarantee a 10% annualized return. But it has been the norm, historically. And even if you average just 5%, your money is still doing better than it would in a savings account.

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