3 Retirement Plans for a Smooth Transition Into Retirement

Description

I’m not sure how many Canadians are open to managing their retirement plans, including their investment portfolios, in retirement. It can be fun if you enjoy doing it and have the knowledge and skills to do so. However, it’s considered work for other retirees who would rather do something else in retirement. How much time and effort you plan to put into managing your retirement finances during retirement should be decided years ahead of retirement to ensure a smooth transition.

Here are three ways to plan your retirement portfolio ahead of time.

Get financial professionals to help with your retirement plan

Ahead of retirement, you might meet with your professional financial advisor or financial planner perhaps once a year or whenever you have major changes in your life that will affect your finances, such as your savings plan. This is one of the most hands-off ways to plan for retirement.

Essentially, you’re relying on the professional training and experience of your financial advisor to help you achieve your retirement goals, including figuring out the balance and investment returns you need and the withdrawal rates. Some people even have multiple financial advisors. It makes sense because some financial advisors are particularly knowledgeable in certain areas, such as financial investing and tax planning.

Will you take a passive-investing approach in retirement?

While your investment plan may have required more active involvement before retirement, you might wish to transition to a more passive-investment approach so that it'll be simpler for you to manage your retirement portfolio in retirement. You should make the transition over time, may be over five years before retirement to ensure you're not selling at a bad time such as during a financial market crash. What I have in mind is perhaps transitioning your stocks and bonds portfolio into exchange-traded funds (ETFs), such as **iShares All-Equity ETF Portfolio** and **iShares Core Canadian Universe Bond Index ETF**.

When selling investments to perform the transition, investors need to be aware of the tax consequences. In taxable accounts, 50% of capital gains are taxed at your marginal tax rate. So, if you believe you need to book capital gains (that'll lead to paying income taxes), try to do so over multiple years instead of all in one year.

Build a perpetual dividend stock portfolio early on

Many retirees hold dividend stocks like the Big Canadian bank stocks, **Fortis**, and **TELUS**, as a part of their diversified retirement portfolios. If you buy great dividend stocks early on, you'll be able to sit on high yield on costs during retirement. For example, your Fortis stock investment from 20 years ago would be sitting on a yield on cost of over 20%.

You may find that it does not make sense to sell the dividend stocks, because it'll result in capital gains tax in taxable accounts. Additionally, you probably want that safe, passive income that continues to grow in retirement.

Although interest rates are expected to rise over the next few years, these dividend stocks still pay attractive income. Particularly, if you'd bought shares at compelling valuations, it could be the best move to simply hold them.

Market corrections happen from time to time, which is why it's helpful to plan and build a quality dividend portfolio early, ideally, decades before your retirement. And take advantage of market corrections by buying the dips. This way, you could choose to sit on your shares and collect passive, growing income when retirement comes.

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