Here's How to Plan for Your Retirement Years

Description

Motley Fool investors have likely seen many articles on how to plan for retirement. There are a few realities that Canadians need to face. And while one is good news, the other — not so much.

Take the good with the bad

Here's the good news. Canadians are living longer than ever! The average Canadian men today will live until around 80, and women will live to around 84, according to Statistics Canada. In fact, the 2011 census stated that Centenarians were the fastest-growing age group. Yay! Live long and prosper, Canadians.

But it's that prosper part we're having a hard time with. Canadians are living longer, which means they're also *working* longer — well into their 70s, in some cases. So, it's clear why many want to plan for retirement so they can hopefully retire earlier and enjoy their lives — something I most assuredly would recommend.

But it's what comes next that many Canadians have a hard time with. And that's the aging part. We tend to steer away from thinking about our old age, but that means we've left this vulnerable future self in the lurch. So, here's how you can prepare.

Don't assume costs come down

Many Canadians plan for retirement making a few assumptions. The first assumption is, they'll only need to have the same amount of money each year that they're making now on a salary. The second assumption is that costs come down when they get older and become elderly, say in their 80s and above.

However, it's when Canadians hit their mid- to late 80s that costs start rising. Let's say you have a heart attack or break your hip. The hospital care we don't pay for, sure, but what about when you go home? How will you pay for in-home care? Do you need to move to a long-term-care or retirement home? What about physiotherapy, medication dispensing, and anything else you might need?

These can be uncomfortable but necessary costs to think of — especially since there aren't a lot of options by the government to cover these costs at present. That's why it's important to be self-reliant and come up with a way to make as much as you can before you absolutely need it.

Two strategies

Let's get right to it. First, Canadians should hold off on collecting Old Age Security (OAS) and the Canadian Pension Plan (CPP) for as long as they can. Both increase the amount you receive if you push them back, costing Canadians about $100,000 by not delaying those payments. Considering many are working past 60 and 65, this shouldn't be much of a problem.

Second is finding solid investments. For that, I'd look to the Big Six banks. If you're nearing retirement age, say, in your 50s, then you'll want one that pays out a strong dividend as well. That would be **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), in my opinion.

CIBC provides a $6.44 per share annually to investors that's been growing for decades. Further, it remains in value territory, trading at 9.78 times earnings as of writing. So, now you can lock in a dividend yield of 4.53%! That's a substantial amount you can add to your old-age savings.

Create massive savings

In fact, let's take a look at what you could get as a 50-year-old saving until 70. That's 20 years of growth. Let's say you already had $50,000 set aside for your retirement and old age. You can then put away $6,000 each year from now on. You then reinvest the dividends from CIBC to create more wealth.

After 20 years, Canadians could have a portfolio worth $826,055 based on historic performance. And that's even while we're going through an economic downturn. That's almost $1 million in just 20 years, which could create massive savings for your old-age income, especially as you add in CPP and OAS payments.

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