3 Tips to Save Money in Retirement

Description

This year is a great time to start thinking about saving money in retirement. Whether you’re already retired or getting ready to retire, it has become more urgent than ever to save money for a rainy day.

This year, inflation is at a 40-year high and shows no signs of slowing down. The Bank of Canada is raising interest rates, but the CPI keeps rising. As a retiree on a fixed income, you’re going to want some cash saved (and ideally invested).

In this article, I will provide three tips on how to save money when you’re retired, so you can enjoy your golden years the way you want to.

Tip #1: Wait longer to take CPP

If you haven’t taken CPP yet, you might want to consider delaying your decision to take it. The longer you wait to take CPP, the greater your benefits become. If you wait until 70, you will get considerably more money than you would if you’d taken it right away at age 60.

Additionally, working for an extra decade lets you save more money, because your salary will likely pay more than your CPP benefits would. So, maybe wait a little while longer to take that CPP payout. It could pay off in the end.

Tip #2: Move to a cheaper city

A second way to save more money in retirement is to move to a cheaper city. More and more retirement-age Canadians are choosing to do this every year. In a city like Toronto, even maximum CPP won't pay for rent on a one-bedroom apartment. But in rural New Brunswick, you might be able to do it on just average CPP. This strategy won't necessarily work for everyone. If, for example, you plan to work part time in retirement, you may not be able to find a job in a cheaper city that otherwise seems desirable. But if you're fully retired and have no pressing lifestyle concerns, then a little geographic arbitrage could make a lot of sense.

Tip #3: Invest in a TFSA

The third and final way to save more money in retirement is to invest in a TFSA.

A TFSA is a savings account similar to an RRSP. You can hold investments in it and compound them tax-free, just like with an RRSP. There are two differences between TFSAs and RRSPs that make the former more desirable for retirees:

1. TFSAs do not have mandatory withdrawals at age 71.
2. TFSAs do not become taxable when funds are withdrawn.

Because of these two advantages, TFSAs are desirable savings vehicles for retirees over the age of 71.

But you don't want to just hold cash in your TFSA. There is no benefit to TFSA funds that aren't growing. Instead, you want to hold index funds like **iShares S&P/TSX Capped Composite Index Fund** (TSX:XIC), and watch your savings grow over time. XIC is one of Canada's most popular index funds for a reason. It holds 240 stocks, giving it ample diversification. It has an ultra-low 0.06% fee, which won't eat into your principal too much. Finally, it is highly liquid, meaning it is easy to buy and sell at low cost. Put simply, it is a great index fund to consider when getting started with investing for retirement.

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