7 Things to Know Before Retirement

Description

There are many unknowns related to retirement. What will your monthly expenses look like? How long will your retirement fund last? What kind of economic crisis could be looming? The 7.7% inflation we sawn in May 2022 and the devastation brought on by the pandemic in 2020 taught us that leaving things to chance is no longer an option. Before you retire, here are seven things you should consider.

1. Retirement changes your routine

Until now, you've been earning, paying off debts, and saving up. All of this will change. The first few days of retirement might seem like a vacation. But establishing a daily routine with limited funding could take a toll on you.

Before you retire, take some time to visualize and map out your retirement. What will your daily routine look like? What's on your bucket list that you didn't have time to pursue in the past? There's no one-size-fits-all approach so you need to know what's going to work for you. Plus, everything may not work out as planned, so make sure you're prepared.

2. Retirement can be mentally and financially stressful

Before you retire, aim to pay off all your debts like mortgages, auto loans, and personal loans. A debt-free retirement will make your savings last longer and ease financial stress. Establish your wants and needs, identify your income sources, and don't forget to make room for "play" money.

It can be mentally stressful to adjust to a new routine. Think about what you can do on a regular basis to find purpose and fulfillment. Consider taking up a hobby, learning a skill, or working part-time. Staying socially active and making time for physical activity will also be good for your mental health.

3. An RRSP is not sufficient to fund your retirement

A registered retirement savings plan (RRSP) allows you to invest 18% of your annual income up to a maximum amount throughout your working life. You may have already accumulated a large sum in your RRSP. But keep in mind that RRSP withdrawals are taxable. Maybe you plan to withdraw 5% of your savings annually for your expenses. While that might do well in a bull market, it could deplete your savings in a bear market.

4. Rebalancing your investments in one go could be risky

To avoid the scenario described above, it's advised that you rebalance your portfolio by reducing your exposure to risky equity and increasing exposure to bonds and resilient dividend stocks. But keep in mind that rebalancing the entire portfolio or a significant portion of it in one go could make you vulnerable to market timing. Rebalancing might bring significant profits in a bull market but significant losses in a bear market.

Consider rebalancing smaller amounts over time. That way, you can mitigate risk and get the best price for your equity. Having some equity exposure even after you retire is a smart plan. Now is a good time to sell some oil stocks like **Suncor Energy** and buy dividend stocks like **BCE** (TSX:BCE)(NYSE:BCE) that are trading at a lower range. This way, you can lock in a higher dividend yield of 5.82%. BCE continues paying dividends for the long-term while also increasing them annually.

5. Inflation can eat up your retirement savings

There could be more years like 2022 to come where inflation eats up your retirement savings. In these times, it's suggested you invest in stocks that benefit from higher inflation, like precious metals, REITs or utilities. They increase their rates to keep pace with inflation and give you the benefit of a higher dividend. For instance, **Barrick Gold** pays a performance dividend when gold prices stay above a certain threshold.

6. Even retired people pay taxes

Unfortunately, taxes don't cease once you retire. Government pension plans and RRSP withdrawals are all taxable. Even the dividend income you earn is taxable. But the Canada Revenue Agency (CRA) also offers several tax credits to retirees, like age tax. You can invest in dividend stocks through your Tax-Free Savings Account (TFSA) to make your retirement income tax-free.

7. Continue to save even after you retire

With increasing life expectancies and financial uncertainties leading up to retirement, never stop saving. Even if it's $100 a month, save. It could come in handy during a crisis.

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Date
2025/07/06
Date Created
2022/07/22
Author
pujatayal