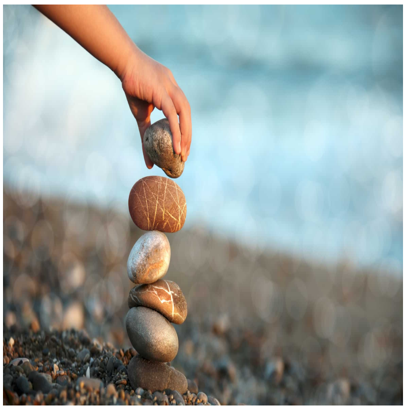

Retirement Planning in 2022: Be Sure to Factor in Inflation

Description

The Bank of Canada (BOC) will announce another rate hike this week (the fifth for the year) that economists say will bring the country closer to a recession. BOC Governor Tim Macklem said, “Inflation in Canada has come down a little, but it remains far too high. We know our job is not done yet, and it won’t be done until inflation gets back to the 2% target.”

Inflation directly impacts people’s finances, including retirees. If you’re building a nest egg or retirement wealth today, retirement planners advise to factor in inflation. Besides reducing longevity risk, this provides a cushion when inflation spikes.

Idle cash can lose its value

The danger for retirees is that inflation reduces purchasing power. Holding cash is okay, although you could lose valuable money if it remains idle. Assuming you have $100,000 cash on hand and the inflation rate is 3%, this money will only be worth $97,000 when you spend it one year later. Even if it earns 1% in a savings account, that $1,000 gain won’t be enough to offset the lost value of $3,000.

Investment vehicles

Canadians are fortunate because they have investment vehicles like the Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP). You can use your savings or extra disposable income to contribute to either account or both every year.

While the Canada Pension Plan (CPP) and Old Age Security (OAS) benefits are for life, they are foundations in retirement, not retirement plans. It’s important to supplement these pensions with investment income to cope with long-term cost increases and to give yourself a better chance of living comfortably in retirement.

Create future revenue streams

Using the TFSA or RRSP today will create more revenue streams in the future. Consider purchasing dividend stocks to hold in these accounts. Don't touch the principal and keep reinvesting the dividends to facilitate faster compounding. By the time you retire, you'll have more to add to your pensions.

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is an ideal retirement stock. This $25.81 billion, dynamic company has an enduring business. It's provided transportation and midstream services to clients in North America's oil & gas midstream industry for over 65 years.

Apart from the generous dividend yield of 5.42%, Pembina pays monthly dividends. This gives you the advantage of reinvesting dividends 12 times a year, not the typical four or quarterly. The energy stock currently trades at $46.51 per share. Your $6,000 TFSA annual limit will produce $27.10 monthly, while the maximum $29,210 RRSP contribution limit will generate $131.93.

Pembina is a dividend aristocrat owing to ten consecutive years of dividend increases. But even if the dividend yield remains constant, a $100,000 investment in 2022 will compound to $287,382.45 in 20 years. If you're retiring in 2042, you'd have $1,298.01 in passive income every month.

New retirement strategy

The nearly 40-year high inflation calls for a new approach to retirement planning in 2022. It's now a must to factor in inflation, whether actual or anticipated, in your long-term financial plan. While PPL is a solid pick, remember that it's important to diversify your portfolio, and not put all of your retirement eggs in one basket. Consider investing in high-quality, enduring companies from a variety of sectors, and building a portfolio that includes a mix of dividend stocks.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

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