MoneySense

7 ways to prepare for retirement

Make bank into your golden years with these smart money tips

by David Thomas
November 6th, 2017

Each year during Financial Literacy Month, we like to pull together some of the smart advice that MoneySense is so well known for. Today we kick off with a cheat sheet with some great tips on what you should be thinking about when it comes to retirement, no matter what your age.

1. Face the facts

Saving for retirement is always a challenge. But a number of factors have added up in recent years that make it even tougher on those entering or preparing to enter retirement. Jonathan Chevreau, Retired Money columnist for *MoneySense*, says the strength and predictability of defined benefit pensions (which pay out until death based on your earnings) is disappearing, as corporate plans move to defined contribution pensions (which build wealth based on employee and corporate contributions but do not pay out based on guaranteed formulas). That's hard enough, Chevreau argues, but where "financial oppression" really takes hold is that retirees are stuck with bond yields that are sitting close to zero, which means nest eggs stop growing as fast and have to be drawn down a lot faster than they were for past generations.

2. Know when to start taking CPP and OAS

You can start taking Canada Pension Plan benefits between the age of 60 and 70. It's worth spending some time figuring out which age is right for you. There are a number of tax and income factors that could guide you to choose the standard age of 65, or to start early or delay as long as possible.

And how you approach that decision could be influenced by how you approach another: When to start tapping the Old Age Security benefit. For the OAS, you can begin to receive your benefit at between 65 and 70 years of age. Be sure to consider both the cases for early and later pension benefits when researching what's best for you.

3. Learn your retirement 'type'

When it's decades away, retirement is hard to really visualize. You put your head down and work and sock away as much as you can, knowing it will help build a nice nest egg for when you're done your working life. But what if you're following someone else's plan and not the one for you? Experts say a little self understanding today can lead to fewer surprises when you meet the future you. Find out if you're a Continuer, an Involved Spectator —or an Easy Glider.

4. Save in RRSPs no matter your age

If you really want to find an excuse not to sock away money in an RRSP for your retirement, it's easy. Why? Because there are always other competing priorities. In your 20s, paying the rent and keeping up with your bills doesn't leave much left to put away. In your 30s, you might have been lucky enough to buy a house, but now you're stretched. By 40, you might have a big mortgage and a young family. Sometimes just putting a few dollars in your kids' RESP can seem out of reach. By your mid 50s, you finally have some cash flow but by then you might be in a panic that you'll run out of time. The *MoneySense* Savvy Investor's Guide to RRSPs can help keep you on track, whatever stage you're at.

5. Factor in the new CPP but don't expect riches

The proposed changes to the Canada Pension Plan will be felt in increments, as the enhanced version gets phased in alongside the current plan. When in full effect, the enhanced plan is intended to replace roughly 33% of average earnings (up to a threshold), versus the 25% target of the current plan. The full impact will only be felt by those who are currently still in high school. As David Aston explains, as the new plan gets phased in Canadians will essentially be served by two plans. He details the differences in the plans, side by side.

6. Retire in the best place possible

Each year, as part of our popular Best Places ranking package, *MoneySense* breaks out a separate ranking of the best places to retire in Canada. A nice climate is always a factor, but we can't all live in Victoria, B.C., so our ranking factors include a full range of inputs including crime rate, housing affordability, access to health care and average income. In 2016, Rimouski came out on top. And Victoria? It did manage to break the top five.

7. Think about withdrawing money early from your RRSP

Logic would suggest you should want to hold money in your RRSP for as long as you can, to allow it to grow without being taxed. But the looming conversion of your RRSP into an RRIF at the age of 71 can change your strategy, says Jonathan Chevreau, Retired Money columnist at MoneySense. When you are forced to convert an RRSP into a RRIF, that means your income is going to rise. Depending on your financial picture, that extra income on top of your pension means you may face a “clawback” of your Old Age Security.

Knowing that situation will arise when you turn 71, you may want to start pulling money out of your RRSP in your early 60s or whenever you have retired. That way, although you will have to declare the withdrawal as income, you might be able to pay tax on it at a lower rate than you would when you’re 71 and earning more. Plus, you may be able to structure your OAS to start later so that you can withdraw more of your RRSP and avoid the clawback.