Watch for potential potholes on the road to retirement

Some obstacles are avoidable, while others are not, so be prepared to navigate both.

At some point during their working lives, most Canadians begin to look forward to retirement – and many do so with the aid of a plan. But no one can predict all their future competing priorities and financial obligations that may arise. This means that a good retirement plan should be built to withstand the unexpected, or at least be flexible enough to allow for changing circumstances.

Regardless of your age, giving some thought beforehand to some of the potential potholes that can appear on the road to retirement can help ensure that you arrive comfortably and securely where you want to be.

Setting out

Start early to save more

You’re never too young to begin planning and saving for retirement. Whether retirement registers high, low or at all on a young person’s priority list, the reality is that every dollar set aside earlier in life has longer to compound and mature into big savings by retirement age. When it comes to investing in your own post-work life, starting out sooner rather than later will usually net you the biggest gains – and your future self will thank you for having had the commitment and foresight to prepare.

A growing family

Raising children can be one of life's great pleasures, but also a serious financial undertaking. Providing the essentials for a child from infancy to 18 years of age can cost upwards of $250,000 on average.[1] And that's before post-secondary education expenses. For this reason, it makes sense to contribute as much as possible to a Registered Education Savings Plan (RESP) for each child, which will grow over time and help soften the impact of funding your kids' higher education, as well as keeping the investments for their futures distinct from other savings. An RESP is a flexible investment that can assist with meeting the education costs aligned with an individual's needs, even if circumstances change.

It helps to note that if one or both parents are committed to stepping away from their jobs for a temporary maternal or parental leave, a reduced income during that period should also be factored into your plan. Depending on the circumstances, a return to full-time employment and regular earnings will likely mean directing more funds to daycare costs. Other costs can increase from there, depending on the number and age of the children, along with any additional challenges, such as those associated with caring for children with disabilities and special needs.

Don't overlook inflation

Like the rest of the world, Canada's economy has been affected by the global pandemic. Reduced economic activity helped keep inflation relatively low until mid-2021. But as an economic rebound continues to take shape, prices for some goods and services, such as food and gas, are steadily climbing at rates not seen in years.

Inflation's effect on retirement planning can be a concern at any stage of life. You could be handling those regular investment contributions without too much trouble, but in the meantime, higher costs of living and rising mortgage and lending rates could be eroding your spending power, ultimately leaving you with less in retirement. You can get ahead of the problem by staying invested in instruments that grow faster than the rate of inflation. Otherwise, your hard-earned savings will carry less weight when it comes to financing the retirement you've been dreaming about.

Turn windfalls into savings

Receiving a surprise gift, bonus or inheritance at any time in your life provides an ideal opportunity to top up retirement savings. It can be tempting to spend unexpected money carelessly or extravagantly, but if you're not keeping pace with your savings goals, you could be neglecting a chance to add some extra security to your financial future.

Reaching mid-life and mid-career

Suddenly, you’re retired

Many people plan for their retirement to occur in a specific year, if not on a particular date. This provides a framework for setting savings and investment goals to strive towards. Yet what if that date arrives earlier than you expect? To suddenly be confronted with early retirement – due to a health crisis, a company restructuring or any number of other reasons – could seriously affect your future plans. Regardless of the cause, how well would your retirement plan handle being initiated months or even years ahead of schedule? One or two years less of asset growth and fewer contributions to the employee pension fund could undercut the amount of savings you were planning to access at retirement.

These sudden situations may be unpredictable or unavoidable, but you can take them into account while you’re planning ahead. For example, choosing to make your highest contributions later in your career could work against you if you need to begin accessing the funds sooner than you had originally planned.

Living a long life

In general, more Canadians are living longer than ever. In 1970, the life expectancy of an average Canadian was just over 73 years, whereas in 2020, it hovered at around 83 years.[2] And while this is good news on many levels, it also means that what used to be considered enough money for a typical retirement now runs the risk of being outlived.

Some experts suggest that to avoid potential funding shortfalls, you should develop a retirement plan and other financial goals with the thought of possibly living to 100. Reaching the 100-year milestone is no longer as rare as it once was – and with that in mind, many should consider increasing the amount of their retirement savings contributions early in their career, giving those funds a long life of their own over which to grow.

Whether or not the probability of outliving your savings enters your vision of retirement, it’s also important to remember that Canada Pension Plan and Old Age Security payments will continue to ensure people are not entirely reliant on their savings alone for support.

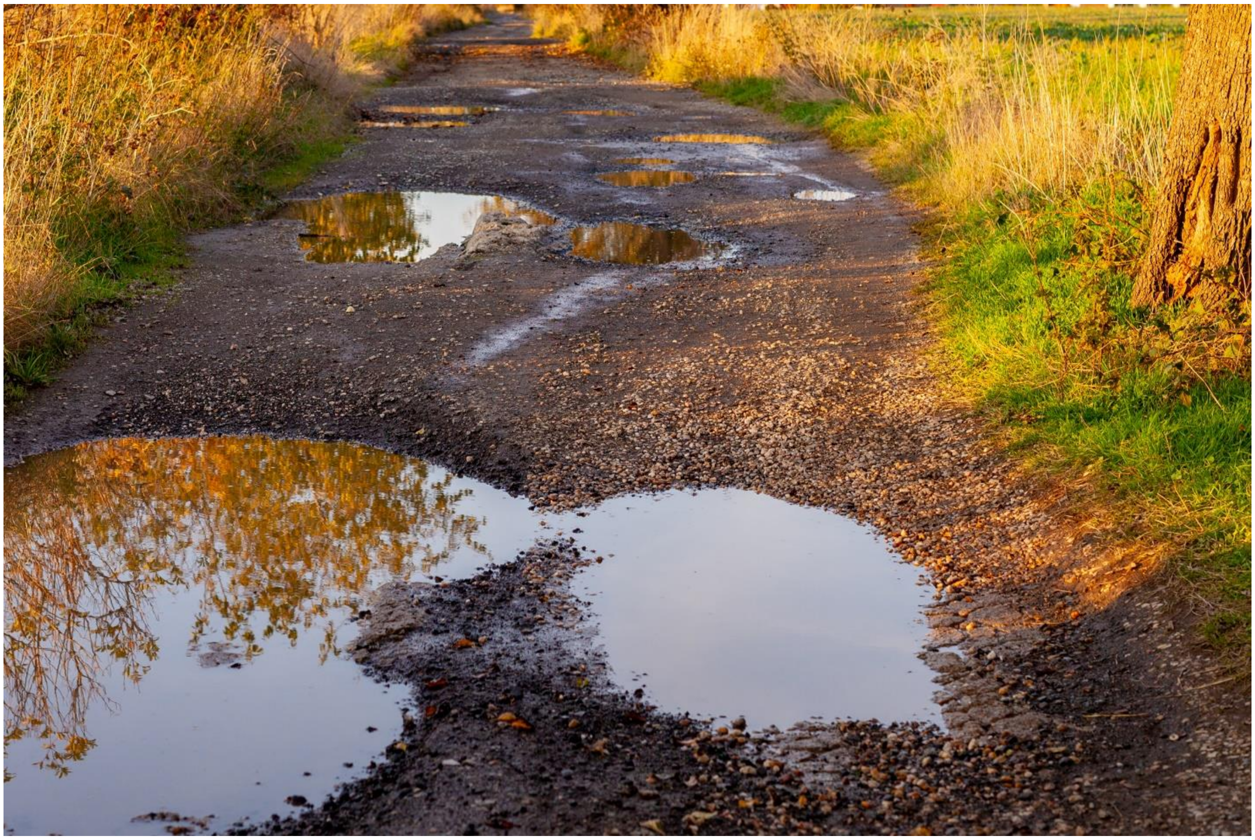
 Approaching retirement

Staying healthy

No one really likes to think about it, but it's generally understood that maintaining good health becomes more challenging as you age. A debilitating disease, condition or injury, which can happen with little or no warning, could drain some of the funds reserved for other aspects of your retirement lifestyle, including travel.

One such area where expenses can quickly surge is the need for intensive care or assisted living if you're no longer able to care for your own basic needs. While they are helpful, provincial health care programs cannot always be relied upon to cover treatments for a lengthening list of conditions. This raises the importance of obtaining some degree or combination of life, disability and critical illness insurance coverage as a safeguard against the "what-ifs" that anyone could encounter.

Dental care falls within the scope of maintaining good health, as well – and these costs should not be overlooked, since even a routine check-up can be a sizeable out-of-pocket expense. Dental insurance, especially when you no longer belong to an employee benefit plan, can provide the protection you'll need, the longer you live.



There’s more to it than money

It might be easy to focus only on the financial components of retirement, but what about the other aspects of entering this special phase of life? Transitioning into a new lifestyle, when working no longer takes up most of your time and energy, can leave some people aimless. Sure, it’s nice to settle down after a lifetime of work, but the emotional impact of drawing money away from, rather than contributing to, your portfolio, will likely take some getting used to. Arriving at a financially secure retirement with little thought as to how you’ll spend your time could dampen an otherwise enjoyable experience.

A retirement plan should recognize how you intend to stay socially connected, busy and physically active, all of which are vital to maintaining a positive outlook and better overall health. Setting new goals of any kind will help keep you challenged, motivated and striving for the next achievement.

At any age

Rely on professional advice

Whether your retirement is just around the corner or several years down the road, planning for it with the aid of an advisor can mean being better prepared when the big day arrives. Advisors are there to help you make the right choices and stay on track while pursuing the financial goals that are most important to you, including retirement and estate planning. When that big day finally arrives, you'll appreciate all the work you've put into it – and have plenty to celebrate.

If you're envisioning your retirement but are unsure of the potential costs, use this handy planning worksheet to help you get a clearer view of the road ahead.

[1] www.moneysense.ca/save/financial-planning/the-real-cost-of-raising-a-child

[2] www.worldometers.info/demographics/canada-demographics