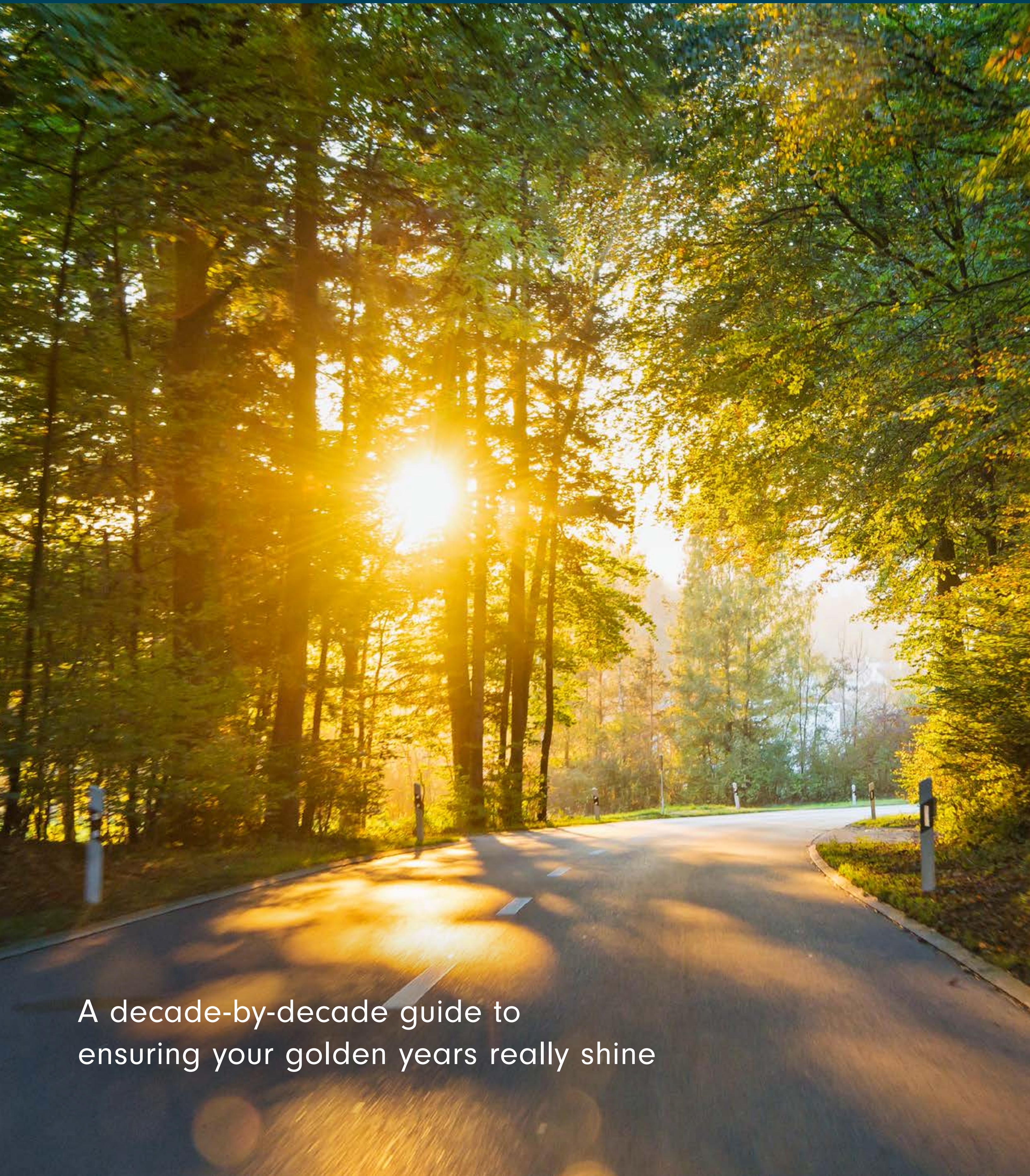
Retirement Road Map



A decade-by-decade guide to
ensuring your golden years really shine

Putting enough money away to have a liveable income after you've punched your last clock is an odyssey, **not a sprint**.

Saving is often a **decades-long process** with many twists and turns, depending on how life gets in the way.

While retirement may be an abstract concept to many and a near-term reality for others, **it's never too late** – or too early – to start saving and tracking your journey to financial freedom.

Whether you're in your 20s or your 60s, here are some ideas on how to save and **stay on track**.

In your 20s: Just setting out

There aren't many 20-somethings who are focused on retirement. More likely, at this age, you're just trying to find a job and navigate working life. You're also likely focused on paying off student loans and on top of that, you may also be looking for money to cover rent.

Focus on:

1. Paying down debt
2. Saving for bigger-ticket items you'll need to start building your life, such as a home (if you want to buy) and a car
3. Starting to save for retirement, no matter how small an amount
4. Building the habit of investing

But don't feel as though you are risking your golden years if you can't max out your Registered Retirement Savings Plan (RRSP) contributions.

While the range may vary, you'll want to work toward saving anywhere **between 10% and 20%** of your gross annual income. Working with a financial advisor can help make this as easy as possible.

Saving for retirement

Saving for retirement might seem overwhelming at first, but you will find ways to put money away as you figure out your budget. As you're investing, it's important to consider where to keep it.

ROADBLOCKS

Student loans
Statistics Canada reported in 2015, the last time it ran the numbers, that the average student owed $28,000 in debt after finishing a bachelor's program. Your debt could be even higher if you pursue a graduate degree.

Rent
Cost could be anywhere from just under $1,000 a month for a one-bedroom apartment in Saskatoon to north of $2,500 in a city like Vancouver. That's not chump change when you're just starting out.

At this age, a Tax-Free Savings Account (TFSA) may be a better option than a Registered Retirement Savings Plan (RRSP).

- RRSPs offer the best advantages as your income increases and you are subject to a higher marginal tax rate, because any contributions you make are deducted from your taxable income.
- A TFSA, on the other hand, can be used for anything: a down payment on a home, a round-the-world trip, a vehicle, a wedding or, yes, retirement.
- Both RRSPs and TFSAs can be invested in mutual funds, exchange-traded funds (ETFs), stocks, bonds, guaranteed investment certificates (GICs) and more.

The federal government launched a **tax-free First Home Savings Account (FHSA)** in 2023, designed to help first-time buyers save up to **$40,000** for a down payment.

Remember, you have one thing older investors don't: time.

Because of the magic of compounding, every dollar you invest today can easily multiply in value by the time you'll need it in retirement.

Don't miss out. The key at this age is to get into the habit of saving.

Next steps: pay yourself first

1. **Create a budget** that tallies your monthly or yearly income and expenses, and then ensure the former exceeds the latter - be sure to factor regular retirement savings into your budget
2. **Automate the habit** by setting up a preauthorized contribution program that automatically contributes a certain amount of money from every paycheque into an RRSP, TFSA or non-registered account

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An aspirational financial goal for your 20s is to eliminate student loans and other consumer debt (not including mortgages), to get in the **habit of investing** and to begin building up retirement savings.

In your 30s: The on-ramp

By age 30, you'll likely be settling into a career, with a little more independence as you earn a larger income. While there will still be many priorities competing for your money – a first home, a new family and weathering possible career changes – retirement planning should start to come into focus.

Does your employer contribute to retirement savings?

YES

In some cases, your employer may help you get a jump start on your retirement savings through a group RRSP, a defined benefit pension plan or a defined contribution pension plan.

While you'll have to make regular contributions to these plans, your employer may match your contribution up to a certain maximum.

Those matching contributions are like found money; don't short-change yourself by leaving it on the table. It's an easy way to build a solid foundation for your savings.

NO

If your workplace doesn't have a group RRSP or a pension plan, you'll need to save for yourself in an RRSP or a TFSA to achieve the lifestyle you might want in retirement.

If you haven't opened an RRSP yet, this is the time to do it. Only 18% of Canadians aged 25 to 34 who filed taxes had an RRSP as of 2020, according to Statistics Canada. Do it now and you'll thank yourself later.

Next steps: work with a professional

As you save for retirement, you want to consider how much money you might need later in life. It may feel like an abstract process, but a professional can help you figure out what your post-working years could look like. Speak with an advisor about opening up an RRSP account and how you can set up preauthorized contributions.

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Are you on the right road? Aspire to have **one year's worth** of employment income saved up by 30, and **two years' worth** by 35.

In your 40s:
Just follow the signs

This is when the rubber really hits the road and you're likely established in your career.

If you're a homeowner...
Your mortgage payments may be starting to account for a slightly smaller percentage of your total household expenses.

If you have a family...
Childcare costs will start to decrease over time (also potentially slowly) to zero.

Although there will still be big cash outlays – hockey gear, replacing the furnace and family vacations – this is the time to double down on the savings habits you first developed in your 20s.

Reminder: keep paying yourself first

Assuming you do retire at age 65, your money still has a couple of decades to grow before you leave the workforce.

With everything you have on the go, you may not have the same energy you did in your 20s...

But you should see your investment portfolio starting to work harder for you.

Your contributions will still be important...

But you'll find your capital gains, dividends, interest and fund distributions will start to have a greater impact on your nest egg.

At this point, you might start to see the *magic* of compound growth.

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While it may be ambitious, target having **3X** your annual salary by age 40, and **4X** by 45, to achieve your retirement goals.

In your 50s:
Cruising speed

If you've played your financial cards right, by age 50, your savings and portfolio should be on cruise control.

Kids, if you have them, might be starting to leave the house, giving you the option to think about **downsizing**.

It's a good time to try to **pay down your debts**, such as your mortgage or lines of credit.

You'll also have the advantage of still being in your high-earning years. It's time, in other words, to take advantage of your situation and buckle down to investing to ensure your retirement plan is in order.

Ask yourself:

- How close are you to the goal you set for yourself back when you opened your RRSP?
- Does it need to be revised upward, given the recent resurgence of inflation?
- Do you need to postpone your retirement date, or can you afford to retire early?
- Is your portfolio exposed to market swings?

According to the Fidelity 2022 Retirement Survey…
Nearly **22% of homeowners are retiring with a mortgage**. The sooner you can remove that expense, the clearer a runway you'll have to double down those savings for retirement.

If you've been making regular contributions to your retirement savings, you may reach the point where you've used up all your RRSP contribution room, but that doesn't mean you can't still *supercharge* your retirement savings.

A TFSA can complement your RRSP savings

- Not only is it another account with its own contribution limits, but **investment gains grow tax-free**.
- Better still, the **withdrawals are also tax-free** and won't affect your eligibility for government programs that can help you in retirement.
- Make sure you're capturing the tax benefits by using up your **available TFSA room**.

RRSP

TFSA

What else?

Once you've got every advantage from those accounts, consider growing your savings in a **non-registered account**.

While your investment gains may be subject to tax, by putting your money to work, you can still grow your savings faster, and potentially get even further ahead on your retirement goals.

Work with your advisor to determine the right asset mix for your retirement goals. Think of this like a final pit stop, a tune-up for the final leg of your journey.

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If you can, aim to accumulate **6X** your annual employment earnings by age 50 and **7X** by 55.

In your 60s: Choosing your exit

- If you're still working full-time, your 60s are when you want to *maximize* any remaining RRSP contribution room.
- If your savings fall short of your goal, the simplest fix is to push back your retirement date, increasing your time to save and shortening the span during which you'll be drawing on your savings.

Notions about retirement are changing.

Fewer people are trading in their full-time job for a life of pure leisure. Many are making a transition to part-time, freelance or consulting work instead, while others are sharing their lifetime of experience to serve on boards.

About 25% of existing retirees polled in the Fidelity 2022 Retirement Survey said they did work as they **shifted to retirement**, and just over 60% of pre-retirees aged 45 and up said they **expected to work in some capacity** after retiring from their primary career.

The value of advice

The transition is a phase when the value of advice comes to the forefront. Working with financial advisors can help you discern the best time to retire from the workforce. They can…

- advise you on how to come up with a **retirement budget** to determine exactly how much income you'll need.
- tally up your **income sources**, not only from your own savings but from employer retirement savings, Canada Pension Plan and Old Age Security.

The Fidelity 2022 Retirement Survey indicated 76% of respondents aged 45 and over who had a financial advisor felt **financially prepared for retirement**, compared to just 52% of those without an advisor.

Keep in mind that a portion of people who retire will return to the workforce, at least for a bit. It may be to stay engaged, or for financial reasons.

Or they may find the transition to retirement harder than anticipated.

Think about how you're going to use the time you used to spend in the office or job site – which totals roughly **2,000 hours a year.**

Does that sound like how you want to spend your days? Do you have other activities in mind?

In addition to your financial preparedness, in other words, it's worth thinking beforehand about the why of retirement. What will make you happy and fulfilled at this time in your life?

According to Fidelity's survey, beyond spending more time travelling, people are dedicating those hours to:

- Volunteering
- Spending time with friends and family
- Hobbies
- Sports and fitness
- Learning

By sticking to the path to financial independence, you've at least ensured **the choice is yours**.

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Ready to retire? While aspirational, try to have **9X** your annual earnings socked away at age 60 and **10X** by age 65. But what you'll need will depend a lot on your lifestyle post-employment.

Bottom line: retirement planning is a journey.

Sure, you may have years when you find yourself further ahead than at other times. Setbacks will happen, but if you have a retirement plan, you can get back on track to reach your retirement goals.

What's important is that you're taking the right steps and regularly checking in on your retirement planning throughout your working years. If you can do that, you'll be in an excellent position to make your dream of retirement a reality.

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