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CIBC PRIVATE WEALTH

ONE-TO-ONE INSIGHTS

COMMON RETIREMENT PITFALLS TO AVOID

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Moving into retirement is an exciting time. You've worked hard throughout your career. You've saved carefully and invested wisely. You've diversified your portfolio and remained disciplined when markets became volatile. Now, to make the most of your savings in your golden years, avoid these five common mistakes:

1. Applying for government benefits too early

The Canada Pension Plan (CPP) pension is a monthly, taxable benefit that may provide part of your income when you retire. The age at which you apply can affect how much you get. The standard age to start receiving the CPP is 65, but you can start it as early as age 60 or as late as age 70. The earlier you start your CPP, the smaller the amount you'll receive. If you start later, you'll receive a larger monthly amount. However, there's no benefit to waiting until after age 70 to start receiving CPP, as the CPP pension is only increased for each month that the CPP start date is delayed up to age 70.

2. Spending too much money, too soon

If you spend too much of your savings too soon in retirement, you risk having a shortfall later. Keep in mind the 4% Rule, a popular rule of thumb used to determine how much retirees should withdraw from retirement savings each year. It's simple: add up all your investments, and then withdraw 4% of that total during your first year of retirement. In subsequent years, you adjust the dollar amount you withdraw to account for inflation. By following this formula, you'll have a higher probability of not outliving your money during a 30-year retirement. But remember, this assumes you increase your spending every year by the rate of inflation—not by the rate of your portfolio returns.

3. Paying more taxes than necessary

"Too many Canadians don't know how retirement income is taxed. This can result in lost opportunities to implement strategies that could reduce taxes by hundreds or even thousands of dollars annually," says Jamie Golombek, Managing Director, Tax and Estate Planning at CIBC Private Wealth.

There are many tax deductions and credits that could help reduce what you owe. Two common credits claimed by retirees are the Pension Income Credit and Age Tax Credit.

4. Supporting adult children

Some parents spend over $500 a month to help their adult children cover expenses such as rent, groceries and cell phone bills. This cuts into their ability to spend money on themselves. It may even cause them to delay retirement. Talk to us—we can facilitate conversations to assess how much help you can reasonably provide.

5. Keeping capital tied up in your home

Across Canada, especially in the larger cities, growth in house values has reached the point where, for many retired homeowners, their house is by far their largest asset. It is not uncommon to see 75% of a retiree's net worth tied up in their home. This represents a very high level of concentration risk. We can show you ways to reduce or eliminate that risk.

We'll be happy to help you come up with a plan to navigate your transition to retirement, from building a budget to managing your wealth. Contact us anytime to talk about how we can help with all the different aspects of managing retirement finances.

Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors.

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