Behind on your retirement savings plan? Here's how to catch up

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Retirement is looming but your savings look a little thin. What can you do to bulk them up?

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Steve Bridge, an advice-only certified financial planner with Money Coaches Canada, has worked with people who say they need $200,000 a year to live comfortably in retirement and others who can get by with about $40,000 annually.

“Getting clear on where you’re starting from is really important,” the Vancouver-based financial coach says. “What kind of retirement do you want and how much might that cost per year? You can go through the exercise of how much are you spending now and how that might look different after retirement.”

He cautions that the closer you are to retirement, the fewer options there are to make up a savings gap.

“If you’re only two or three years away, making money and saving as much as possible is even more important,” Mr. Bridge says.

It’s also important to remember that retirement can last three decades or more, says Sara La Gamba, senior adviser for SPM Financial in London, Ont., given longer lifespans and depending on when you stop working.

“If you’re just looking at a bank account and you … have a couple of hundred thousand dollars or a million, it seems like a lot. But if you live a lavish lifestyle, and factor longevity into retirement, that money has to last a very long time,” Ms. La Gamba warns.

Advisers are often relied on to help people plan for retirement – whatever that looks like for them – and stay consistent with those goals. They use specialized software to calculate how much income a particular person needs each month or year to meet their retirement goals, and how much will be provided by pensions or investment income. The federal government also provides an online retirement income calculator that includes Canada Pension Plan and Old Age Security income considerations.

Krista Hynes, a Sun Life Financial adviser based in St. John’s, typically discusses three options with clients looking to ramp up their retirement plans: “You could increase your monthly savings. You could insert a lump sum into your retirement planning right now and with investment growth it would be calculated to get you there. Or you could delay retirement.”

Ms. Hynes says speeding up savings often requires a lifestyle shift. The good news for some is that the pandemic lockdowns have helped them save more by being stuck close to home.

“Maybe you can leverage the extra income right now,” she says. “It’s about doing what you can when you can.”

Mr. Bridge recommends people consider needs versus wants if they’re trying to save more: “Maybe I don’t need five streaming services. Maybe I don’t need the newest phone every two years. Maybe I don’t need to replace my car so often.”

Tony Maiorino, head of RBC Wealth Management Services in Toronto, says more thought should also be put into what vehicles are used for retirement savings.

For example, the choice between a registered retirement savings plan (RRSP) or a tax-free savings account (TFSA) can be important: Contributions to an RRSP provide a tax break but trigger a tax bill when they are later withdrawn. TFSAs, on the other hand, provide no contribution tax break but don't trigger tax when withdrawn.

"If you're a bit older and have more taxable income, maybe you need to do the RRSP first and then TFSA," Mr. Maiorino says, noting that the decision should be made year to year.

People approaching retirement also need to look carefully at their investments, he adds.

"What are you investing in? What is a reasonable estimation of the rate of return on those investments? Because the rate of return becomes a lot more important when time is missing," he says.

Ms. La Gamba says investors should also consider how much risk they can stomach if they're investing to produce higher returns for retirement.

"It's going to cause tremendous stress if market correction or volatility is going to cause … a looming retirement problem," she says.

Homeowners who are eyeing the equity in their house as a solution to the savings gap should also be cautious, Ms. Hynes adds. Some may have a house and cottage and decide to sell the house to retire to the cottage. Or some may want to be snowbirds or travel, and plan to sell and then rent instead.

"You can find a $200,000 windfall that can put you over the edge," she says. "But I never recommend people do it as their only option."

Retirees who sell their homes may discover they don't love renting, she says.

"You have to consider mental well-being. You have to keep the softer side of retirement at the heart of the discussion."

For those who just can't make the math work to close the savings gap in time for the planned retirement date, the option is working longer or planning on part-time or consulting work after retirement. It's not necessarily a negative; many people choose to work longer even if they've saved enough.

"Just because you're 60 doesn't mean you have to quit working and not continue saving," Mr. Maiorino says.

No matter what the retirement plan is, advisers stress that it shouldn’t be set in stone. Plans often need to be revisited regularly to consider changing economic, market and lifestyle circumstances.