Have you considered inflation and life expectancy?

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When planning your retirement, it is essential to consider two factors that are important but often ignored: inflation and life expectancy.

Inflation

Inflation is the general increase in prices of goods and services. This is what will cause a product to cost more in 10 or 20 years than it costs today. Inflation impacts your purchasing power because, as time goes by, you will be able to buy less for the same amount of money.

Over the last 20 years, the average inflation rate in Canada was approximately 2% per year[1]. Over 30 years, an inflation rate of 2% almost doubles the cost of goods. Your purchasing power is reduced due to inflation. That is why it is important to consider inflation in your retirement planning.

Life expectancy

Because life expectancy only increases, your retirement could last 25 or 30 years…or even longer! Therefore, your retirement income will be entirely subject to inflation, and this will affect at what age you are able to retire.

Impacts of retiring early →

— You will accumulate savings over a shorter period
— Your savings will generate returns for a shorter period (therefore, fewer returns by the time you retire)
— Inflation will come into play for a longer period (on your retirement in its entirety)
— You will have to live longer on your retirement savings (increased risk of outliving your savings)

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Under these circumstances, how can you make sure you have enough money to live off for your entire retirement?

Here are several tips to help you counter the effects of inflation and increased life expectancy on your retirement savings:

— **Plan to live into your 90s, or even later**

  You have about a 50% chance of reaching the average life expectancy and about a 50% chance of exceeding the average life expectancy[2]. When figuring out your retirement, you should take into consideration the fact that you may live past the average life expectancy so that you have adequate savings.

— **Increase your contribution to your group savings and retirement plan or plan to retire later**

  Pushing back retirement is not an exciting plan for everyone. However, the earlier you retire, the less time you have to accumulate retirement savings. What should you do? Increasing your contribution to your group savings and retirement plan may be an option. Over the long-term, five dollars per week – the approximate cost of two coffees – can make a huge difference on your total savings.

— **Diversify your investments**

  A portfolio which comprises only very safe investments does not generally offer significant returns. It is therefore important to spread out your investments in order to benefit from a balance between risk and returns. However, it is important to respect your investor profile, which takes into account your risk tolerance and your investment horizon.

Don't let inflation and increased life expectancy eat up your retirement savings. By including these two factors in your retirement planning, you will be better prepared to live your retirement dreams...throughout your entire retirement!

[1] Source : Statistique Canada
[2] Source : Autorité des marchés financiers