

Common Pre-Retirement Mistakes to Avoid Making

Everyone says that the biggest mistake you can make with a retirement plan is failing to have one at all.

In fact, this is something that was mentioned in our article '7 Financial Mistakes Most People Often Get'. There, it was noted that the longer you go without a plan the less opportunity you have to earn interest. This is most certainly the case, but it also paints an incomplete picture. Proper retirement planning doesn't stop once you open an account, and there are more mistakes you can make along the way.

We'll look at some of those mistakes below so that you can avoid making them yourself!

Picture 1 of Common Pre-Retirement Mistakes to Avoid Making

1. Failing to clear your debt

Ideally, you want to enter retirement debt-free. Your income, which typically comes from your retirement account, might not be substantial enough to cover loans, credit card bills, and other kinds of debt on top of your day-to-day expenses. Needless to say, this could leave you short on funds without a job or sizable savings to turn to.

While you still have the security of a job, then, you should consider it part of your retirement planning to get serious about paying down debts. For many this starts with student loans and mortgages. That said you'll also want to get rid of what The Balance identifies as bad debt— your credit card payments and high-interest loans. Particularly when your credit card debt is high, you might just be paying off interest rates without chipping away at the amount you actually owe. (In Canada, the average credit card debt is a somewhat worrisome \$3,330....)

2. Withdrawing from your retirement savings

Compounding interest is the primary benefit of setting up a retirement account early. Think of it as a snowball effect for what you put away for retirement. However, making unnecessary or premature withdrawals from the account takes away this benefit. Wealthsimple's guide to RRSP withdrawals explains that once money is taken out, it might take a while to replace the gains you've made on your contribution and investment earnings. This in turn reduces how much you get years down the line. Plus, as if that weren't enough of a consequence, you'll also have to pay taxes on money you withdraw from an RRSP.

To avoid running into this problem altogether, make it part of your financial plan to build a separate emergency fund and allocate for expenses that aren't in your regular budget. That way, should such an expense arise, you won't have to turn to your RRSP for help.

3. Maintaining the same lifestyle as you age

Though there are obvious perks to leaving the labor force, the loss of income can be a strain even with a good plan in place. This is one reason many new retirees consider downsizing — even when a majority of seniors would rather continue to live where they're already comfortable.

The adjustment doesn't have to be too difficult or abrupt, however, if you make a point of changing your lifestyle gradually while you approach retirement age. Start considering what properties you might need to move into, and make small changes to your day-to-day lifestyle to be a bit more frugal. Consider spending a little more time away from home if you have the option, so that you get used to new and different spaces. Prepare to move on, in other words, and you'll be more comfortable doing so if it becomes a necessity.

4. Having no plans for a stable income in retirement

According to a survey from Ryerson University, 79% of Canadian respondents aged 55 and older report that their RRSPs, pension plans, and social security are not enough to support them. Given this troubling news, it's wise for people planning for retirement to consider what options might be available for additional income streams. You might start by consulting with a professional on how you can invest, take up consulting relevant to your career, or find a new source of income altogether.

Planning for retirement may be a burden now, but your future self will thank you. In particular, focus on debt repayment and keeping your retirement fund intact, while also doing what you can to prepare for the changes that come with retirement. If you approach these factors diligently, you'll have a good chance to retire happily and comfortably.

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