How to keep investing in retirement

Just because work ends, doesn't mean you should stop investing

After spending your working years saving and investing to grow your retirement assets, it's finally time to enjoy the income from those retirement savings. But just because you may no longer be earning a paycheque, doesn't mean your investing days are behind you.

Indeed, many retirees have built up big enough nest eggs that they can live off the investment income. Others may want to bring in a little extra money by working part time or by renting out a property—and then put those dollars into the market.

While investing in retirement isn't that different from investing during your working years, it's not exactly the same, either. You'll have less money coming in, some assets will need to be withdrawn from your Registered Retirement Income Fund (RRIF), and you won't be able to invest in an RRSP anymore.

Here are some strategies for successfully investing during retirement.

Think long term

While some might view retirement as "crossing the finishing line" for investing, you've hopefully still got another leg or two to go in the race. With more people living into their 80s and 90s, you could have two or three decades of life ahead of you. With that kind of time horizon, the last thing you should do is cash out of the market.

As well, for many years the conventional investing wisdom has been to get more conservative with your asset mix as you age. While every situation is different, if you are in good health and think you might have a decade or two ahead of you, then you may want to consider keeping a decent portion of your assets in stocks. This is especially true for money you don't need to cover day-to-day expenses.

Use other accounts

If you're 71 years of age or older, you can no longer use an RRSP to shelter your capital gains and investment income. When that account transforms into a RRIF, you'll need to start withdrawing a certain percentage of your savings. Unfortunately, many people will be forced to take out more than they need, while others may not need anything as they're covering their living expenses with other means. If you do have excess assets, consider reinvesting those dollars in a Tax-Free Savings Account (TFSA) or, if your TFSA is maxed out, a non-registered account.

If you have room, a TFSA should be your first choice. You will get taxed on your RRIF withdrawals (at your marginal tax rate), but any money that's inside of a TFSA can grow and then be taken out tax free. With a non-registered account, you'll have to pay tax on income and on investment gains when a security is sold.

Different allocations for different needs

When you're in your 20s and 30s, you can, usually, put your money into a portfolio that consists mostly of stocks and hang on until you near retirement. (Of course, the percentage of stocks to bonds, even for younger people, will depend on risk tolerance levels among other factors.) That's because of your long time horizon—if the market drops in your 30s there's still plenty of time to recover your losses. When you're in retirement, you may have needs that require different investing strategies.

For instance, you might put the money you will eventually transfer to your daily expenses chequing account into a bond portfolio where it can remain relatively free from market ups and downs. More mid-range funds—money you might need in the next two or three years—could go into a balanced portfolio of stocks and bonds. Assets you don't need for years down the road might be invested in a more aggressive stock-heavy portfolio. What you do may also depend on the kind of income you have coming in—Canada Pension Plan, Old Age Security (OAS), a company pension—and other factors, like risk tolerance, health, spending needs, and more. Make sure to speak with a financial advisor before making any big investing moves.

Consider taxes and clawbacks

While you may be in a lower tax bracket in retirement, you'll still want to pay only what you owe to the government and not anything more. As mentioned, RRIF withdrawals are taxed, and depending how much money you have in that account and your other sources of income, the tax hit could be significant. As well, if your net income exceeds about $79,000 (as of 2020), your OAS payments could start getting clawed back. For every dollar your net income exceeds the ~$79,000 threshold, your income will reduce by 15 cents (the clawback rate is 15%). If you have a net income of ~$128,000 or more, your OAS will be fully clawed back and reduced to zero. Keep all of that in mind when you invest in retirement. If you do need to use non-registered investments, situation-depending, try and keep more tax-advantageous assets, such as capital gain-generating stocks and dividends, rather than bonds, which are taxed as regular income, in the account.

Investing later in life can get complicated, so be sure to talk to an advisor. But just because you're retired, doesn't mean your money can't continue to grow for you.