



## How You Can Retire Early

### Description

Just about everyone would like to retire early. You must either amass enough savings, or you have to develop other means to generate a passive income that you can live on.

Personally, I think having savings is not good enough. These savings should be earning something (excluding the three months to three years of cost of living savings that's used for emergencies). Other than your emergency fund, the rest of your savings could be generating a passive income stream for you.

Here's how you can retire early.

### Spend less than you earn

Before you can save to buy assets that generate passive income, you first need to spend less than the amount you earn. Statistics Canada found that the median income earned by a Canadian in 2013 was \$32,020. Applying a 3% inflation rate, we arrive at a median income of \$34,990 this year.

Assuming you earn the median income, if you're able to save \$3,499 (or 10%) of that every year (equating to \$292 a month), you'll save \$34,990 in 10 years. Once you make a habit of spending less than you earn, it should be very easy to save.

If you're able to earn a 5% rate of return for the \$3,499 you save every year, you'd amass \$46,210, which is \$11,220, (or 32%) more than if you just hid the money under the carpet.

### Build a passive income stream

The more you save and the higher the rate of return, the larger the amount of savings you will amass.

Let's say we stick with the 5% return. Where can we get that today?

You'll be thrilled to know that some dividend stocks offer that 5% return from dividends alone. That's right! Without having to worry about where the stock price might go, you can get dividend cheques paid

to you regularly.

At \$38.7, **National Bank of Canada** ([TSX:NA](#)) yields 5.6%, which is higher than the 5% we wanted. Its payout ratio is about 46%, so its dividend is sustainable.

**Brookfield Infrastructure Partners L.P.** ([TSX:BIP.UN](#))([NYSE:BIP](#)) is a diversified utility with quality assets that generate stable cash flows to support its distribution. Its annual payout is US\$2.28 per unit (equating to US\$0.57 per quarter). Using a foreign exchange of US\$1 to CAD\$1.25, it yields 5.7% at \$50.1 per unit. Its payout ratio is sustainable around 70%.

Brookfield Infrastructure pays distributions that can consist of interest income, foreign-sourced dividends, locally sourced dividends, eligible and qualified dividends, and capital gains. So, it's better to hold it in an RRSP or TFSA instead of in a non-registered account.

The last BIP distribution I received in my TFSA had a negligible amount (15%) withheld because a teeny weeny portion of the distribution was U.S. dividends.

These two companies are a good start in building a passive income stream. Once your diversified passive income stream is bigger than your job's income, you can retire.

## Conclusion

It's never too early to start saving and investing for retirement. Keep in mind to spend less than what you earn and use those savings to build a passive income stream.

## CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSX:NA (National Bank of Canada)

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**Date**

2025/08/25

**Date Created**

2016/03/04

**Author**

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