3 Steps to a More Secure Retirement

Description

Even though many of us are still decades away from retirement, it's a constant worry. Nobody wants to run out of cash during their golden years.

With record housing prices, higher food costs, and increasing financial commitments despite stagnant salaries, saving for retirement is tougher than ever. And with interest rates hitting record lows, it's hard to get decent returns–especially from fixed income.

Investors don't have to fret about obligations decades away. Much of the worry can be taken away by making a few smart moves today. Let's take a closer look.

Save while you're young

I've come to realize a universal truth when it comes to saving for retirement.

A high savings rate removes a lot of other sins.

I've seen investors do a lot of dumb things over the years, like keep 100% of their retirement savings in GICs, go nuts with just one or two stocks, or make a myriad of other mistakes.

Sometimes, these mistakes really hurt. Losses are so high that retirement is either delayed or is more basic than envisioned.

But investors can guard against these mistakes by making one simple move today. As long as they can maintain a high savings rate when they're young, everything else should work out.

People shouldn't plan to screw up, of course, but mistakes inevitably happen. Saving more will help ease the pain, ensuring you have enough to do whatever you want during your golden years–as well as leaving an inheritance too.

Ease into it

Going from a life of work to a life of retirement can be a big adjustment. Doing nothing can quickly turn from liberating to boring. Instead, look to ease into retirement by gradually taking less hours at work or taking on a part-time gig.

This will also take away the stress on your retirement savings. Using the commonly accepted 4% withdraw rate as our guideline; making $10,000 in salary is the equivalent of $250,000 in additional savings. This extra cash is a godsend for retirees who just don't have enough capital saved.

Working will also help make sure a retiree doesn't spend money. Many of us fall into that trap, hoping to escape boredom by going to the movies, going golfing, or doing a number of other expensive things. That can really hurt, especially for somebody without as much capital as they'd like.

Invest in dividend growers

Dividend-growth stocks are a fantastic deal for retirees. They spin off an ever-increasing amount of income in a tax-efficient way, and a properly diversified portfolio only has to be lazily monitored.

If investors load up on these stocks a decade or two before they retire, they can lock in some very attractive yield-on-cost rates.

Take **Telus Corporation** (TSX:T)(NYSE:TU), one of Canada's finest dividend growers. It trades at a reasonable valuation, has a dominant position in the market, and is the gateway to the internet. This is a good position to be in.

A decade ago, Telus paid a quarterly dividend of $0.188 per share and traded at approximately $31. Shares are worth $10 per share more–good enough for a 30% or so capital gain–but the dividend growth has been the more impressive part. Today's dividend is $0.46 per share, giving investors who'd bought back then a yield on cost of 5.9%.

Another example is **Inter Pipeline Ltd.** (TSX:IPL), an Alberta-based pipeline company with most of its assets in the province. The company has been growing capacity smartly throughout the years, including recently completing a number of upgrades to its three main oil sands pipelines. This excess capacity will really pay off when production growth from the region resumes.

Inter Pipeline had a monthly dividend of $0.07 per share a decade ago. That dividend has nearly doubled in the meantime, increasing to $0.13 per month. This represents a yield on cost of a whopping 15.4%.

The bottom line

Making sure you have a secure retirement isn't that hard. By investing aggressively when you're young, loading up on dividend-growth stocks, and easing into it by working part-time, anyone can ensure they have enough capital for their golden years.

CATEGORY

1. Dividend Stocks
2. Investing

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