

How to Retire (and Thrive!) With Less Than \$1 Million

Description

One of the biggest myths in finance is that you need at least \$1 million to survive in retirement.

This falsehood continues to be perpetuated by folks with a vested interest in accumulating assets under management. Financial advisors, mutual fund managers, and other wealth professionals stand to make more if people save more. Of course they're going to try and scare folks into accumulating more savings.

In reality, you don't need \$1 million to have a good retirement. Here's why.

Government money

Many financial advisors don't even acknowledge the government's role in a normal retirement. I've even heard these folks tell clients they shouldn't count on anything, despite the fact they've made Canadian Pension Plan (CPP) contributions for decades.

This is terrible advice. The CPP is healthy and will be buoyed by higher mandatory contributions starting in 2019. Retirees don't have to worry about the plan running out of money.

The average Canadian couple turning 65 in 2017 will be able to count on nearly \$1,300 per month from CPP, plus a maximum of \$578 per month per spouse in Old Age Security payments. Altogether, that means a retired couple could be looking at \$2,444 in monthly income from the government alone, or nearly \$30,000 per year.

Downsize potential

Tens of thousands of Canadians — especially in the Greater Toronto or Vancouver metro areas — are living in some very valuable real estate. The average price of a detached home in both Toronto and Vancouver is north of \$1 million.

Even if you aren't sitting on the proverbial gold mine, there's still plenty of potential to downsize. Moving from a house to a condo could easily put \$250,000 in your pocket, perhaps even more.

Using the oft-cited 4% safe withdrawal rate, that money could translate into an additional \$10,000 in annual income. Not bad.

Get a part-time job

I kept in touch with a former co-worker who recently retired. A few months into his golden years, he was loving his carefree lifestyle.

A year later, his tune had changed completely. Boredom had set in. He was actively looking for a part-time job. He wanted nothing excessive — just 10-15 hours a week to get him out of the house. Despite

being a skilled worker, he was happily applying for jobs, like being a part-time bagger at the supermarket.

At just \$12 per hour and 10 hours per week, a part-time job can add another \$6,000 per year in annual income. It's the equivalent of having another \$150,000 to invest.

Choose great dividend stocks

Another simple way to stretch your retirement income is picking high-yield stocks with the potential to increase their payout.

One great example is **Inter Pipeline Ltd.** (TSX:IPL), which has quietly grown into one of Canada's largest energy infrastructure companies. The majority of its earnings come from Alberta, which is as energy friendly of a place as you'll find.

Inter Pipeline is poised to really do well when oil recovers. It has some two million barrels of oil per day of spare capacity in its three main oil sands pipelines. All it needs is for production from the region to grow once again. It should happen the next time oil spikes.

In the meantime, investors are getting a 5.8% yield — a payout that has been raised an average of 8% annually over the last five years.

Another great dividend stock is **Telus Corporation** ([TSX:T](#)) ([NYSE:TU](#)), western Alberta's largest telecom. It has raised the dividend twice per year for the last five years, increasing the quarterly payout from \$0.30 per share to \$0.48 today. It has a current yield of 4.5%.

An investment holding equal parts Telus and Inter Pipeline would yield 5.15%, which would further stretch out meagre retirement savings. Remember, the experts only recommend withdrawing 4%.

The bottom line

Don't fret if you don't have a nest egg in the seven-figure range. Government pensions will certainly help, and a retiree can always downsize or get a part-time job to further boost their income. Investing in high-yield stocks will help as well. And remember, a retiree has fewer expenses than someone who has to go to work every day.

It's very possible to have a great retirement without a million bucks in the bank. Don't let the naysayers convince you otherwise.

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