When Will You Be Ready to Retire?

Description

Some people think they can't retire until they accumulate a lump sum such as a million dollars. If you withdraw 4% or $40,000 from a million dollars each year with the assumption that the savings don't earn any interests or returns, you'll use it up in 25 years.

Do you find it difficult to figure out how much you need to accumulate to retire? You can simplify the problem. Focus on how much you're spending today instead.

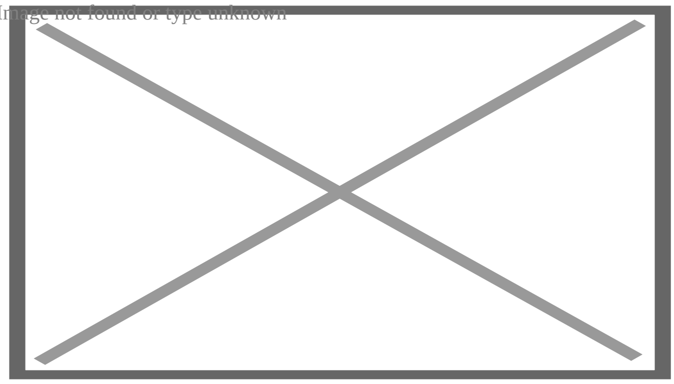
Think of your cost of living, including shelter, food, transportation, clothing, utilities, and medical expenses. For example, if you own an apartment, you'll need to pay insurance, property tax, and strata fees.

If you're not sure how much you're spending, you can use a money-managing app such as Mint, or record your spending in a spreadsheet. After you've tracked your spending for a few months, you should know roughly how much you spend per month. Remember to include fees that you pay only once a year, such as auto insurance or property tax.

Let's say you figure out that you spend $36,000 per year. Dividing that by 12, your average monthly spending would be $3,000.

If you stopped working today, you'll need to be able to generate $36,000 per year from your assets. Moreover, the income generated from your assets should at least keep pace with the long-term inflation rate of 3-4%.

If you can do that, you won't have to worry about depleting your hard-earned savings.



A portfolio with a 4% yield

One of the most straightforward methods of generating income is to build a dividend-growth portfolio.

By building a portfolio that yields 4%, you only need $900,000 to generate $36,000 of income per year.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is one of the oldest dividend companies available on the Toronto Stock Exchange. It has paid a dividend since 1832.

Today, it is one of the top three Canadian banks, and it's the most international one with operations in more than 50 countries, including Latin American countries, which tend to experience higher growth.

Bank of Nova Scotia is fairly valued today and offers a decent 4% yield. With a payout ratio of about 50% and expectations of higher growth from its international operations, the bank can continue growing its dividend by at least 5% per year for the next few years. As such, Bank of Nova Scotia makes for a core holding for retirees, especially on dips below $70 per share.

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP) is one of the best-in-class utilities you can buy. It has a diversified portfolio of premier utilities, energy, transport, and communications infrastructure assets, which generate stable, growing cash flows with high margins, and they have strong growth prospects.

These characteristics make for a rock-solid distribution. The limited partnership offers a 4.3% yield which management aims to grow 5-9% per year. The stock has performed surprisingly well, having appreciated nearly 60% since 2016. Any meaningful dips would be a great entry point for investors.

Investor takeaway

One way to know if you are ready to retire is to see if your assets generate the income you need. For example, if you determine that you need your dividend portfolio to generate a 4% yield and the dividend stocks to grow by at least 4% per year, you can build your portfolio with quality stocks, such as Bank of Nova Scotia and Brookfield Infrastructure.

Their dividends should grow at least 5% per year, which gives at least a 1% buffer for the target. It's always prudent to have a buffer. Any pensions or government supplements you may receive can be viewed as buffers as well.

Medical and dental costs tend to get costlier as people age. So, aim to generate more income than you need, if possible.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
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