



Retirement Savings: 1 Simple Step to Make a Passive Income Each Month

Description

The prospect of generating a passive income that is sufficient to fund retirement is something that may seem daunting to a lot of people. After all, replacing a salary with a passive income is a major task that is likely to take years of saving and investing to fulfil.

However, that task could be made easier by investing in dividend-paying stocks that are expected to raise their shareholder payouts over the long run. Not only could they offer a generous, and growing, passive income, they may also deliver impressive capital growth.

Investing for income

At the time of writing, there are a wide range of stocks that pay [generous dividends](#). As such, it is likely to be fairly straightforward for an investor to obtain a competitive income return from a portfolio of stocks when compared to the income prospects of other mainstream assets such as bonds and property.

However, investing for income is more than just seeking the highest yields that are available. Considering how a company's dividend payments may grow over the long run could be a key factor in generating a high, and sustainable, passive income in retirement.

Therefore, it is crucial for investors to focus on the capacity of a company to pay a higher dividend over the long run. Factors such as dividend affordability, in terms of the proportion of profit that is used to pay a dividend, as well as the financial prospects for the business, in terms of how its profitability will grow, could have a significant impact on an investor's income level in the long run.

As such, it could be argued that while a yield is important today, the rate of dividend growth is likely to be more significant for retirees who require a passive income through older age. It could even be worth sacrificing a high yield in favour of a lower yield that offers greater scope for a rapidly-rising dividend payment in the long run.

Investing for growth

While generating a passive income is the key priority in retirement, stocks that offer impressive levels of dividend growth could generate significant capital growth. Investor demand for such stocks could increase as their financial performance improves and the prospect of a higher yield boosts sentiment.

Stocks with high dividend growth prospects will naturally appeal to individuals who are seeking to build a nest egg for retirement. However, they are also likely to be of interest to retirees. After all, a larger portfolio in older age can make it easier to generate a passive income that provides financial freedom.

Takeaway

While generating a passive income for retirement may seem to be tough, it is possible to build a diverse portfolio of stocks that, together, offer an impressive income return. By focusing on dividend growth, investors may benefit from an improved income return over the long run. As such, focusing on dividend growth, rather than solely on yield, could be a shrewd move.

CATEGORY

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