



Millennial Couples: Follow This Plan and Retire by 40

Description

Many Canadians dream of an early retirement where they seize control of their time from a job that never really loved them back.

The desire is there, but folks get bogged down in the details. Just how much does one need to retire by 40, anyway? And how exactly can you get there?

Let's answer some of your most pressing early retirement questions and give you a roadmap to get there earlier than you ever imagined.

First steps

Retiring early is all about creating a huge savings rate and maintaining it for as long as possible. We're talking about saving anywhere from 50-75% of your income.

There are numerous ways to accomplish this, but ultimately it comes down to two things: making a healthy income and living as cheaply as possible.

Say you make \$100,000 annually. Taking drastic steps like living with a roommate, ditching your car for public transit, or cutting restaurant spending down to zero can help turn a good savings rate into a massive one.

You'll also need to look at making more money. An easy first step is to ask for a raise or a promotion. If your boss says no, don't sweat it. You can either take your skills to an organization that values you property or dedicate your evenings and weekends to making extra cash on the side.

Saving \$50,000 per year is worth half a million in just a decade, and that's before adding any investment growth.

Invest wisely

Personally, I think any potential early retiree should embrace a [dividend growth investing](#) strategy. A rising income stream will ensure they never have to touch the principal.

The early retirement community swears by the 4% rule, which states that a retiree can withdraw 4% of their portfolio annually without much risk of running out of money.

A dividend growth portfolio will easily yield 4% and be filled with companies that have a history of increasing their payouts to shareholders. It's the 4% rule but with inflation protection built in.

Canada's banks are popular with dividend growth investors, and I particularly like **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)) here. While I'm bullish on the company's Canadian operations — how can you *not* be?

What I really like is the bank's presence in Latin America, a region with far better economic growth and net interest margins than Canada offers.

The thing that makes Scotiabank perfect for an early retiree's portfolio is the stock yields 4.9% today, well above the 4% withdrawal rate cutoff. The company has increased its dividend 43 of the last 45 years including a 6% increase in fiscal 2019.

A portfolio of \$1 million yielding 4% invested in a dividend growth portfolio would generate an inflation-protected income of \$40,000 annually, which should be more than enough to ensure a middle-class lifestyle in a location with a cheap cost of living.

Insurance

Many folks worry a million-dollar portfolio won't be enough to make their early retirement dreams come true. After all, financial advisors often tell savers who are nearing a traditional retirement age that \$1 million isn't enough.

The good news is there are steps you can take to ensure your nest egg stays intact.

The first step would be to ensure a well-diversified portfolio of at least 20 different stocks. Mixing in some U.S. stocks would be a good idea as well.

Next, at least consider a place with a lower cost of living: \$40,000 doesn't go far if you insist on living in downtown Toronto. But it will buy you a house in some parts of rural Alberta and Saskatchewan. Living abroad can be even cheaper and be a fun adventure too.

Also remember that you'll qualify for some [CPP benefits](#) once you hit 65, although your payments won't be close to the maximum because of the early retirement. And you'll qualify for Old Age Security, too, which will help mitigate some of the risk of running out of money.

The bottom line

Retiring by 40 will not be easy, however. You'll need to save aggressively and invest well to hit the \$1 million net worth mark, which is likely the minimum amount you'll need.

It'll all be worth it when your time becomes your own again. What are you waiting for? The time to start this journey is today.

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