Can You Comfortably Retire on $500,000?

Description

Many investors are well positioned for retirement. These folks have maxed out their RRSPs, regularly put cash to work inside TFSAs, and some of the especially lucky ones are even preparing to collect a hefty workplace pension.

Some people aren't so fortunate. These investors are forced to play catch up because their retirement savings haven't been up to par. Perhaps they prioritized putting their kids through college or paying off the house. Or maybe they had to deal with a midlife job loss or other financial curve ball.

If you listen to the experts, these investors with a mere $500,000 in retirement assets are doomed. You'll need millions to retire, they've always declared. Folks without that kind of cash might very well be out on the street in their 80s. Or, even worse, they'll have to ask their kids for help.

It doesn't have to be that dreary. In fact, I'd argue the average Canadian can not only survive on a $500,000 nest egg, but they can thrive if they make a few smart decisions. Here's how you can make even a small retirement fund seem a whole lot bigger.

Move out of the city

Many folks with meagre retirement savings are often living in a valuable paid-off house. I'd recommend selling the property and moving somewhere cheaper.

This journey can take one of two paths. You can sell your house and move into a cheaper condo nearby, but that might still be pricey if you live in an expensive real estate market like Toronto's. Or you could pack up and move to a smaller community that offers much cheaper real estate. The more extreme choice might be the best one financially.

Let's look at real-life numbers from my neck of the woods. The average house in Calgary is still a hair over $450,000. Condos in nearby cities of Medicine Hat or Lethbridge can easily be purchased for under $200,000. It's an easy way to put some serious cash in your pocket while also making retired life a lot simpler.

Remember other income sources

Many soon-to-be retirees drastically underestimate the monthly income they're set to receive from the federal government.

A Canadian couple who have both maxed out CPP contributions over the years is looking at a combined income of $28,000. Add in OAS payments — which works out to a maximum of approximately $7,200 per person — and a couple retiring today could easily be making more than $40,000 annually just from the government alone.

That's not great, but it's likely much more than the average Canadian thinks they'll get.

Invest wisely

Investors might be tempted to invest their retirement savings into stocks with huge yields, hoping to maximize cash flow.

I'd suggest a different approach. I'd put the capital into dividend-growth stocks, which will deliver predictable raises. I'd then only spend the dividends, trying my best to not touch the capital.

One terrific dividend grower that every retiree should be looking at is **Great-West Lifeco** (TSX:GWO), one of Canada's top life insurance companies. It has also been expanding into the wealth management business in the United States, and it has significant insurance operations in Europe.

Some investors are concerned about the European assets, as low interest rates on that side of the ocean have depressed fixed-income returns. The company's U.K. operations could also take a hit with Brexit. But management is navigating these potentially tricky waters expertly, including posting recent quarterly results that saw European earnings increase by more than 10%.

Operations on this side of the ocean continue to chug along nicely, with both the Canadian and the U.S. parts of the company posting solid numbers. In fact, Canadian profitability should improve as the company creates synergies by merging its top brands together.

Shares trade at a compelling valuation, with analysts expecting earnings of close to $3 per share in 2020. That puts the stock at just over 10 times earnings.

This is also good news for further dividend increases. After holding the payout steady of years, Great-West Life got serious about dividend growth in 2015. It has raised the distribution each year since. The current yield is right at 5% — an excellent payout in today's low interest rate world.

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1. Editor's Choice

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Date
2025/09/09
Date Created
2019/11/22
Author
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