



## Can You Retire Comfortably With Less Than \$400,000?

### Description

If you've amassed a \$400,000 nest egg, you can sustain a frugal retirement based on the 4% rule. But if you stretch the 4% rule, with average portfolio yields of 6% or 8%, is it possible to sustain a comfortable retirement? And if you're a millennial who's just turned 30, can you continue to [grow your wealth](#) after hanging up the skates from the workforce for good? Or are you destined to return to work much later in life?

There are many rules of thumb, such as multiplying your annual income by a multiple of 10 or 15 to get a gauge of how much you should have before you can retire. But given such rules of thumb are likely based on the 4% rule (or something close to it), is it a bad idea to stretch your passive-income fund to buy you additional years (or decades) of retirement?

With a 4% yield on \$400,000 of principal, you're looking at \$16,000 in annual income, and given you're unlikely to have your \$400,000 all within a [TFSA](#), your income payments will, unfortunately, be subject to taxation. Let's say a \$300,000 of your nest egg is in a non-registered account, and your estimated annual taxes will be pinned at around \$3,000, assuming you're not making any other sources of income.

That leaves about \$13,000 left in your pocket, or just \$1,083 per month, which is only enough to finance an extremely frugal lifestyle in a Canadian city that's not Vancouver or Toronto.

For a retiree who's eligible for a CPP pension, your monthly CPP payments, when combined with your \$1,083 per month (after-tax) income stream, may be able to finance a somewhat comfortable lifestyle. Let's say your CPP pension payments are \$700 per month, just above the national average. You're looking at nearly \$1,800 per month, which is quite a decent lifestyle for a retiree who doesn't have potential liabilities (like expenses associated with homeownership).

For a prospective millennial retiree, taking out your CPP in your 30s isn't an option. So, unfortunately, you'll only get the \$1,083 monthly amount from your income stream, which is only enough to finance a very frugal lifestyle at best.

What about stretching your income fund's yield to 8%?

With securities like **Inovalis REIT**, you can secure a reasonably safe 8% yield (although the name yields 7.4% today, the average yield is around the 8% mark). Inovalis is a mid-cap (\$267 million market cap) office REIT focused in urban hotspots across France and Germany.

The REIT could allow one to double their monthly income to around \$2,200 (after tax), which works out to a \$32,000 before-tax income.

For millennials, the amount is enough to retire on comfortably. For retirees that can also benefit from CPP payments, one can live a very comfortable retirement with a \$400,000 nest egg, which is less than half the size of the \$1 million nest egg that's seen as the minimum retirement amount by many.

Now, stretching your yield to 8% is an aggressive extreme and leaves little to no room to grow your principal or distribution over time. You may wish to consider an average income stream yield between 4% and 8% to give you the perfect balance of long-term growth and the upfront distribution you'll receive.

But as for your \$400,000 principal, it is theoretically possible to retire comfortably, especially if you're eligible for CPP benefits as well. As for millennials looking to retire early, a relatively modest retirement is possible with the same amount for those content with a somewhat frugal lifestyle in a Canadian city that's not in a rental state of emergency.

Of course, if you've got a sizeable liabilities or extensive expenses (mortgage payments on a house), \$400,000 probably isn't going to cut it, even if you're okay with a frugal lifestyle.

If you're debt-free, already own your home, or are renting, though, \$400,000 is enough to finance a frugal to a modestly comfortable retirement, depending on your desired portfolio yield.

Stay hungry. Stay Foolish.

## CATEGORY

1. Investing

## PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

## Category

1. Investing

## Date

2025/08/13

## Date Created

2019/11/27

**Author**

joefrenette

default watermark

default watermark