How to Retire on Just $350,000

Description

Most financial experts claim that people need at least $1.5 million in savings to retire comfortably. With today's high cost of living and low rate of interest, they're not wrong. However, very few Canadian households ever accumulate that sum of money.

In fact, only 3.5% of the country's population has a net worth exceeding $1 million, and most of their assets are locked in their primary residence. The median household wealth is estimated to be around $300,000, while the average wealth is estimated at $400,000.

So, if you have financial assets in line with the national average — roughly $350,000 — can you retire comfortably? The short answer is maybe, but only if you take some extraordinary steps for this extraordinary outcome. Here's how you can achieve this.

High dividend yields + systematic withdrawals

Traditionally, retirees depend on the interest or dividends from their stocks and savings accounts to meet living expenses. In other words, investors can rely on passive income from high-yield assets.

Others are advised to sell a portion of their investments every year to meet their spending needs. According to the common rule of thumb, savers can safely withdraw 4% of their assets without running out of money. This is also known as a systematic withdrawal plan.

While those two techniques could work for retirees with larger nest eggs, savers with a modest amount may have to combine them both.

Targeting high dividend stocks could be a part of the solution. Robust and reliable stocks like **BCE** and **RioCan Real Estate Investment Trust** already offer dividend yields exceeding 5%.

Investors with an appetite for risk and more experience analyzing stocks could venture further than the blue-chip companies in their search for higher yields. Lesser known and seemingly riskier stocks like **Vermilion Energy** or **Chemtrade Logistics** offer dividend yields as high as 14.3%.

Investors can supplement this yield with a systematic withdrawal plan that offloads 4-5% of assets every year. A well-diversified portfolio of stocks that broadly tracks the TSX Index should deliver roughly 6% in annual capital appreciation over the long term, so this withdrawal plan doesn't grievously erode the nest egg.

In effect, by combining the two strategies, investors can derive a 10% cash flow on their assets. On an account worth $350,000, that implies $35,000 in annual cash flow, which is roughly in line with Canada's median individual income.

While that amount of money won't be enough for families living in pricey parts of the country, like Toronto or Vancouver, or meet the needs of families with young kids, it should suffice the average empty-nester living in any other part of the country.

Bottom line

Retiring on $350,000 is difficult but not impossible. Most investors can deploy a strategy of investing in robust high-yield dividend stocks along with a systematic withdrawal plan to retire on their investments.

However, the amount generated by doing so on a smaller asset base won't be enough for families with young children or retirees in major cities. For the average, retirement-age, prudent Canadian investor, $350,000 may be just enough to live on. However, much more would be needed for a comfortable retirement.

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