How to Retire on $300,000

Description

Apart from dismissing parents with the phrase "OK Boomer," the FIRE (financial independence, retire early) movement is the hottest trend in the millennial world these days. Millennials are a generation of rule-breakers, delaying or even rejecting many milestones of adulthood.

Millennials are a highly-educated generation — not just a bunch of lazy, entitled folks who aren't driven because of participation awards awarded in the past.

They know that overpaying for an asset with leverage, even a tangible one like a house, isn't without its risks, as demonstrated by the aftermath of the 2007-08 financial crisis.

By taking a rain check on the house (at least for now), the possibility of early retirement went from a pipe dream to a realistic option for many young Canadians. That said, there's a world of difference between just retiring and retiring comfortably.

As I mentioned prior, millennials are a bunch of rule-breakers. So, as you'd imagine, the 4% rule of knowing if you're well-equipped to retire is also a rule that's ripe to be broken.

While the size of a retirement nest egg will differ depending on the individual, many millennials may be able to stretch their principal that much further by opting for higher yielders to retire far earlier than anyone would think possible.

Moreover, minimalistic and non-materialistic millennials may be able to hang up the skates even sooner if they see themselves continuing to living modestly and frugally.

But how much is enough?

Most financial advisers and pundits, including Suze Orman, scoff at the idea of the FIRE movement and the thought of retiring on less.

While retiring on an amount like $300,000 will require one to take on more aggressive investments, one must also remember that millennials, who are able to re-enter the workforce should a retirement go south, have the ability to stomach more risk than their Baby Boomer parents.

Rather than settling for 4% yielders, one can safely stretch their yield past 6% with equities like **TransAlta Renewables** (TSX:RNW). Not only does the underrated renewable energy kingpin have the ability to sustain its outsized payout, but it also has the capacity to grow its business and its dividend at a higher rate than most 4%-yielding stocks!

The company has a portfolio of renewable power facilities that span the worlds of wind, hydro, solar (the works), and gas. With encouraging projects on the horizon, TransAlta is not only a reliable blend of growth and income, but it's also riding on secular industry tailwinds that make it easier to sustain outsized profitability over prolonged periods of time.

"With a green play like TransAlta Renewables, you're in the good books of federal regulators and are being pulled towards future profitability rather than being dragged," I said in a prior piece.

At the time of writing, the stock trades at 19.3 times next year's expected earnings and 1.8 times book, a low price to pay for a firm that's capable of sustaining double-digit revenue growth numbers alongside a healthy, growing dividend.

The 6.2% yield will allow investors to receive $18,600 in annual income, or just shy of $1,600. On an after-tax basis, the amount of not nearly enough to retire comfortably in most big Canadian cities, but when supplemented with side gigs, one can retire frugally in a more affordable Canadian city such as Edmonton.

With a dividend grower like TransAlta Renewables, one can expect to get frequent raises over time that can outpace the rate of inflation.

So while the upfront income may not be enough to live lavishly today, your nest egg is still subject to a high degree of growth, allowing one to enjoy a marginally better retirement as time goes on without any additional effort.

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