



Baby Boomers: Can You Comfortably Retire With Less Than \$500,000?

Description

If you believe the pundits, you'll need at least a cool million to retire. If your lifestyle is anything beyond a lower-middle-class one, you'll likely need much more. Or so they say.

Personally, I disagree with that assessment — something that's usually spouted by financial planners or fund managers who directly benefit from having more assets under management. Many Canadians are guilty of the exact opposite sin, with many [saving too much for retirement](#). The cash never gets spent and eventually gets inherited.

If you approaching retirement age today and you only have a mere \$500,000 set aside for your golden years, can you really afford to retire? I think you can. Let's take a closer look at the details.

Retirement income analyzed

If we use the oft-referenced 4% retirement withdrawal rule, it looks to be pretty obvious. A [\\$500,000 nest egg](#) translates into a mere \$20,000 in annual income. That's not nearly enough to retire, and it's certainly not enough to retire early.

But we must remember there are other potential sources of income out there. For instance, a retiree and their spouse will both collect CPP and OAS payments, cash that can easily total \$1,500 per person each month. Even if these folks take their CPP early, we're still looking at a conservative estimate of \$15,000 or \$20,000 annually in extra income. That works out to \$35,000 to \$40,000 per year.

There are other levers a retiree can use to get even more income. Perhaps the family home gets sold, partially to free up capital to invest and partially as a lifestyle choice. Or perhaps you or your spouse will go back to work part-time, an excellent plan that has many benefits that aren't entirely financial.

Remember, your expenses will go down over time, too. You'll no longer have a long commute to work. Taxes will go down, since you're not making as much income. Retirement savings won't be necessary any longer. Even small expenses, like not having to maintain an expensive work wardrobe or eat lunch out, will add up. And it's unlikely you'll travel much in the second half of your retirement.

I've talked to retirees who were shocked to realize these expenses were easily costing them \$20,000 per year. Suddenly, their \$40,000 retirement income went a long way.

One way to goose your income

As I've demonstrated, you could easily have \$40,000 or \$50,000 in total household income if you retire with just \$500,000 in the bank. That should be good enough for most folks, but it's always nice to have a little extra.

A portfolio stuffed with Canada's best high-yield stocks can help increase your income. A 6% yield will turn a \$500,000 nest egg into something that produces \$30,000 each year alone.

One stock that can help you increase your portfolio yield is **Laurentian Bank of Canada** ([TSX:LB](#)), Canada's seventh-largest bank.

Laurentian has had a few issues lately, including some lacklustre results, controversy with its mortgage operations, and issues with downsizing some unionized staff. These issues all appear to be in the rear-view mirror, but shares continue to be depressed because of general fears surrounding the Canadian banking sector.

Management promised changes to boost the bank's profitability, putting it more in line with its larger competition. These changes are taking longer than expected, with full results not expected to hit the bottom line until fiscal 2022.

Onto the good news. Laurentian Bank shares are cheap on a number of different perspectives. They trade solidly under book value, while most of its larger competitors trade at 1.5-2.0 times book value. It's also cheap on a forward earnings perspective, trading at just 9.5 times 2020's expected bottom line.

The stock also pays one of the most generous dividends in the whole financial sector, checking in today at a 6.1% yield. With a payout ratio of approximately 50% of earnings, you don't have to worry about the yield. It's secure.

The bottom line

If you're looking to retire on just \$500,000 and enjoy a middle-class lifestyle, I say it's very possible. Between normal portfolio withdrawal rates, government assistance, and the potentially working a little, you should have plenty. And if you're looking for a little extra income, high-yield stocks like Laurentian Bank can help.

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