3 Crucial Steps to Take the Year Before You Retire

Description

Everyone looks forward to retirement. You can finally do the things you skipped while working. It's an exciting milestone, yet it makes you anxious, especially when you're one year away. Worrying about the transition is normal, but the confidence to retire isn't there if you're not financially prepared.

Retirement requires extensive preparation. If you feel you're not ready in 365 days, make sure to take these three critical steps. It will help you ensure a smooth transition to the last phase of your life.

Clear your debts

Retirement life won't be as easy if you have financial liabilities. You need to pay down some debts or eliminate all if possible, so there won't be a severe strain on your retirement savings. You gain a sense of ease with fewer bills to pay in case your fund or pension is limited.

Create a retirement budget

Create a detailed monthly budget that takes into account all future expenses you might incur during retirement. Some of your spending while working would be gone, but new ones like medical costs will be added.

From the budget, you can determine the withdrawal rate or amount you can afford to withdraw from your savings. If you find out that your budget is short to cover retirement expenses, the third step is the most crucial.

Boost your retirement income

There's a way you can boost your retirement income and not postpone your retirement. A high-yield dividend stock like **American Hotel Income Properties** (TSX:HOT.UN), or AHIP, can be your source of tax-free income within your TFSA. Likewise, you can delay the CPP and OAS pension until 70 to receive higher monthly payouts.

This $556.23 million real estate investment trust (REIT) is offering a 12.14% dividend. The high yield should give you a big lift. A $10,000 investment can produce tax-free earnings of $1,214 yearly, whereas an investment 10 times more will yield $12,140 in annual tax-free income.

Niche play

AHIP is the hottest real estate stock known to dividend investors. Its investments are in hotel real estate properties in the U.S., primarily in premium-branded, select-service hotels in larger secondary markets.

The rationale for choosing secondary metropolitan markets is because the locations have multiple demand generators. Also, the industries in the respective jurisdictions are supporting the local economies.

In early December last year, AHIP was able to secure a deal to acquire 12 premium hotels. The locations of the properties, with a total of 1,203 guestrooms, are in Texas and the Midwest. AHIP sold its economy lodging portfolio before entering this latest portfolio upgrade.

With the shift to higher-quality assets, AHIP expects to generate a more stable rental income. The niche play would allow years of steady growth and dividend sustainability.

Know the risks before investing

In AHIP, you have a pure dividend play that can deliver a significant income stream. However, this sub-specialty in the real estate investment industry can be volatile. There’s a strong correlation between occupancy rates and economic conditions. Cash flows can weaken during a downturn and therefore could harm dividend payouts.

Nevertheless, AHIP is helpful to would-be retirees who are in catch-up mode. What is important is that you have an asset where you can build a financial cushion in one year and have the option to delay the CPP and OAS pension.

CATEGORY

1. Dividend Stocks
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1. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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