



Baby Boomers: Can You Retire on \$500,000?

Description

In today's world of COVID-19 related economic uncertainty, dividend cuts, and just plain unpredictable stock markets, many soon-to-be retirees are beginning to rethink their future.

Even though these folks have respectable nest eggs, doubt is beginning to creep in. This is only natural; after all, it's tough to think about the future when everything is so unpredictable. A few months ago, a goal to retire on \$500,000 worth of savings would have looked pretty reasonable. Now many investors want more, just in case the market dips again.

Sequence of return risk in retirement is a very real danger. If your investments do poorly during the first couple years of retirement, suddenly you're trying to pull the same amount of cash from a much smaller pile. Your net worth starts to dwindle and the fear of running out of money becomes a terrifying reality.

Let's take a closer look at a potential investor who is looking to retire on \$500,000. Can they still pull this off in a COVID-19 world?

Income potential

There are three easy [income sources in retirement](#) — the first is any dividends or earnings from your investments. Most early retirees use a 4% withdrawal rate as a rule of thumb, and we'll do the same to be conservative, which translates into \$20,000 in annual income right there, assuming a \$500,000 portfolio.

Next is Canada Pension Plan (CPP) and Old Age Security (OAS) payments. The average person receives about \$640 per month in CPP earnings, while the maximum OAS payment is \$613. If both you and your spouse are both getting these average payments, you're looking at an additional \$2,500 per month.

Although people also have pensions, we won't include them in this calculation.

In total, if you're looking to retire on \$500,000, you're looking at possible income of approximately \$4,200 per month. That works out to a hair over \$50,000 per year, which is certainly a good start. Many middle-class Canadians can easily retire on that much, even if it's less than what they make right now.

Remember, retirement is usually cheaper than having a job. You avoid expenses like a costly commute, other work expenses like lunches and clothes, and you don't have to keep saving for retirement.

Ways to increase your income

If that doesn't seem like quite enough, I have good news. There are a few easy ways to increase your income.

The first way is to go back to work on a limited part-time basis. Many retirees enjoy having a part-time job, which gives them a reason to leave the house and a social aspect too.

Another way to increase your income is to sell your house, move to a cheaper place, and invest the proceeds. Selling the house also cuts down on some of your home maintenance, which will also put cash in your pocket.

And finally, another way to juice cash flow is to get a little [higher yield](#) from your investments. For instance, **Canadian Utilities** ([TSX:CU](#)) shares are currently offering a 5.5% dividend yield, which is historically a very high yield from this Dividend Aristocrat.

Canadian Utilities owns power plants, power lines, and natural gas pipelines in various locations, although operations are primarily in Alberta. The company spent 2019 selling off non-core assets — a move that really helped improve the balance sheet. Its next step is to use some of its available liquidity on growth projects.

One near-term event that could boost shares significantly is a favourable outcome with its negotiations with AUC, Alberta's utility czar. The company expects a favourable decision by the end of the year, but the uncertainty behind this is weighing down the stock.

Some investors might think a 5.5% yield is risky, but Canadian Utilities is one of Canada's best dividend stocks. It has raised the payout each year since 1972, giving it 48 consecutive years of dividend increases. That's the longest such streak in Canada.

Can you retire on \$500,000?

Based on a 4% withdrawal rate and average CPP and OAS payments, you're looking at around \$50,000 per year in retirement income if you retire on \$500,000 at age 65. That should be enough for many Canadians right there.

And if not, don't fret. Additional steps can be taken to increase your income to the \$60,000 to \$70,000 per year range.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CU (Canadian Utilities Limited)

PARTNER-FEEDS

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