Millennials: Can You Retire Early on Just $500,000?

Description

It happened during the Great Recession and it's happening again now. Yes, I'm talking about an early retirement movement, a growing swell of support for folks who have thrown off the shackles of traditional employment to do their own thing.

It's easy to see the appeal of such a strategy. Days of long commutes and office politics are instead filled with hobbies, time outdoors, or whatever else you'd like. Your time is yours again. And there's no worrying about job security if you've sworn off traditional work forever.

There's just one problem: most millennials can't save up enough to pull it off. Even the small minority that are super savers get told there's no way they can possibly retire early on less than several million dollars. There's simply too much risk.

Others, however, disagree with that assessment. They point out that the 4% rule — which states you can safely withdraw 4% of your assets each year without running out of money — is still likely to work even for someone with a four or five decade retirement ahead of them. Some folks also intend on earning a little money as they attempt to monetize passion projects.

Let's take a closer look at an early retirement scenario involving a millennial investor with just $500,000 in the bank. Can they afford to retire early? Let's see.

Income potential

The 4% rule is pretty clear in this scenario. If someone has a $500,000 nest egg, they can safely withdraw $20,000 per year, which isn't enough for most people to live.

But that doesn't mean your early retirement dreams are immediately dashed. There are numerous Canadian stocks that pay more than 4% in dividends alone, and that isn't factoring in any capital appreciation.

One stock with a generous — yet safe — yield I like today is **Royal Bank of Canada** (TSX:RY)(NYSE:RY

), the crown jewel of the Canadian banking oligarchy.

Royal Bank is the undisputed leader in virtually all important banking categories here in Canada. It has the most branches, the highest market share in the mortgage business, a solid wealth management division, interesting credit card brands, and even insurance operations. And if that isn't enough for you, the company has substantial U.S. assets as well as operations in the Caribbean.

Recent COVID-related fears have pushed Royal Bank shares down more than 20%, creating a great buying opportunity. Shares haven't been this cheap on a price-to-trailing earnings or a price-to-book value perspective since 2009.

Royal Bank shares also haven't yielded this much since 2009; the current payout is 5.2% with a trailing payout ratio of under 50%. A portfolio yielding 5.2% would automatically increase your early retirement income from $20,000 to $26,000. That's a great start. And remember, Royal Bank has a history of raising its dividend.

Can you live on less?

Most of us can't live on just $26,000, but some early retirees can make it work. They embrace a simple life in a place with cheap real estate, whether that's here in Canada or somewhere abroad.

We also can't discount the ability to earn some active income after early retirement. An additional $20,000 in part-time work can increase your total income to just under $50,000. Plenty of folks can easily survive on that much. It's especially easy for someone who's used to living on less and banking the rest.

Many people who retire early also have a spouse who keeps working. While purists might argue that's not exactly early retirement, it's an easy way to ensure money keeps coming in. It'll also help on the health insurance side.

The bottom line on this retire early strategy

It won't be easy to retire early on just $500,000 in savings. That kind of portfolio won't generate enough income to get you much over the poverty line.

But with a little thinking outside the box, you can pull off something almost as good. An ideal lifestyle with a little work and a lot of free time can easily be designed — one that earns you enough cash to keep going. It's not early retirement, but it might just be good enough.

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