4 Simple Tips to Help You Retire Early

Description

The pandemic crisis has people taking a closer look at what is most important in our lives.

One outcome of the process is a renewed desire to minimize the number of years we work. In fact, planning for an early retirement is now front and centre for many more Canadians.

Let’s take a look at a few simple tips that can go a long way to achieving the goal.

Eliminate credit card balances

Investors who eliminate debt are most likely to retire young. The first step is to ensure credit card charges are cleared every month. Paying up to 20% interest on the balance is a retirement killer. Credit cards should be used for convenience, not credit.

Avoid car payments

Everyone loves a new set of wheels, but a vehicle is a terrible investment. If you can get by without owning a car, you are already ahead of the game. Gas, maintenance, insurance, and repairs add up quickly. In addition, many people have expensive leases or large car loans.

Unfortunately, a vehicle is often required to commute or efficiently coordinate our daily lives. The family car has to be safe and reliable, but it doesn’t have to be a fully loaded SUV if 90% of the use is simply running around town and driving to work. Consider buying used vehicles that are in excellent condition. Spend what you can afford. Own the car outright.

Harness the power of compounding

When the debt is paid off, it makes sense to start putting savings into investments that can grow substantially over time. Canadians can take advantage of RRSP and TFSA contribution space to build portfolios of top-quality dividend stocks. Inside the RRSP and TFSA the full value of distributions can be used to buy new shares. This sets off a snowball effect that can turn a small initial investment into a large retirement fund in 20 or 30 years.

The best companies to own tend to be industry leaders with strong track records of dividend growth supported by rising revenue and higher profits. **Canadian National Railway** is a good example. The railway plays a key role in the smooth operation of the Canadian and U.S. economies and generates enough cash to cover its investment needs as well as pay dividends.

A $10,000 investment in CN stock just 20 years ago would be worth more than $235,000 today with the dividends reinvested.

Maximize RRSP and TFSA contributions

Avoid using taxable accounts if you still have RRSP or TFSA contribution room.

The RRSP is great for investors who find themselves in higher tax brackets, as the contributions are used to reduce taxable income. The money can grow tax-free inside the RRSP and is taxed on withdrawal. With careful planning, the funds are pulled out at a lower tax rate than when they were contributed.

The TFSA is a good option for young investors who want to keep RRSP contribution space available for later in their careers. All interest, dividends, and capital gains generated inside the TFSA are tax-free, and there is no tax paid when the money is removed.

Ideally, investors maximize their RRSP and TFSA contributions each year.

The bottom line

A bit of investment planning and expense control goes a long way to meeting early retirement goals.

These are certainly challenging times. However, investors also have attractive opportunities to buy top-quality stocks at discounted prices to jump-start their retirement portfolios.

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