How to Buy 10 Years of Retirement With 1 Year of Work

Description

Excitement fills the air if you're 10 years away from retirement and on track to meet your financial objectives. However, it doesn't mean you can coast along. There's work ahead of you to bolster your nest egg or retirement portfolio some more as the date draws near.

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Retirement planning is a long process that could take 25 to as long as 45 years. There should be enough leeway to build a financial cushion and retire comfortably. The rewards are bountiful if you'd been devoting a portion of your income to retirement savings.

Suggested preparation

The journey to retirement can begin as early as when you're 20-25 years old or with your first paycheque. Let's say you're a super saver and are able to save one entire year of salary quickly. For simplicity, let's assume it's around $30,000 after taxes for someone in their 20s. An alternative is, you can save $500 every month diligently for 60 months, and you would have $30,000 lump sum savings in five years. The next step is to grow the money for the next 40 years and set your sights on retiring no later than 65.

The Old Age Security (OAS) and Canada Pension Plan (CPP) deems 65 Canada's standard retirement age. By the time you reach the age, both pensions, plus your retirement savings, should be close to 100% of your pre-retirement income. Otherwise, you might have to delay retirement and work a few more years.

Preparing for retirement involves a series of actions, such as eliminating debts and curtailing expenses, particularly discretionary ones. Sometimes it includes downsizing to a smaller residence or moving to less-expensive cities or locations to further economize. Your plan must be comprehensive, because the primary goal is to guarantee that your nest egg can last a lifetime.

Invest for growth

It's not advisable to take the retirement exit with a half-baked plan. Believe it or not, but your $30,000 savings is the centrepiece. It must grow in 45 years. You can't avoid going into dividend investing at this stage. It's the most straightforward approach that will deliver higher returns in the future.

If you're investing for growth, the top pick is **BCE** (TSX:BCE)(NYSE:BCE). Aside from offering a high 5.94% dividend, telco stocks are robust and defensive assets in the COVID-19 world. Furthermore, the largest telecommunications company in Canada can potentially increase dividends annually.

In a 45-year investment horizon, your $30,000 savings will grow 1,006% to $300,661.58. Assuming the dividend remains constant until 2065, the monthly income should be $1,493.22, higher than the combined OAS and CPP monthly pensions. The computations are estimates, but it shows the power of compounding.

Likewise, BCE is the logical choice, because telecommunications and the internet are staples, if not indispensable services. You're investing in a blue-chip company whose business will grow, not shrink, through decades. Expect BCE to lead the technological revolution (5G) in Canada.

No frills

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The retirement strategy presented here is realistic, implementable, and achievable. If time is on your side, all you need is $30,000 capital to create a stable retirement income. However, it will only run its natural course if you take the steps today. Also, you can make the necessary adjustments well in advance and retire without delay or pressure.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:BCE (BCE Inc.)

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