Want to Retire Early? Be Careful What You Wish For

Description

The expected lifespan of the average Canadian has increased over the years. For 2021, the average lifetime is 82.66%, a 0.18% increase from 2020. If that's the case, your retirement years could be a long part of your life.

Many aspire for financial independence and dream of early retirement. However, it could be wishing thinking unless you prioritized retirement savings since your first day on the job. Early retirement is a viable option only if there are advanced planning and financial discipline. Otherwise, you can't dive into unchartered waters just yet.

Not an eleventh-hour planning

People who were able to retire early, at 50 or 55, put in the time and effort to reach their objectives. They did not undermine their goals by upping their lifestyles as income increases and accumulate consumer debt. Instead of spending needlessly, they look for opportunities to free up cash and save money. Never mind the short-term pain because there's a long-term gain.

The key to advancing early retirement is to include savings as a regular expense in your budget. Your future is the priority if you make it a habit. You don't save at the eleventh-hour to retire early or expect a better tomorrow.

Prepare for drastic changes and a harder transition

If the FIRE (financial independence, retire early) movement catches your fancy, known first what it entails. The strategy advocates extreme frugality which isn't easy for everyone to adopt. You throw mindless spending out the window and save around 60% of income in each of your working years.

The early years of retirement are the hardest. Don't expect you can maintain your current lifestyle ifyou take the early plunge. Be ready for a drastic change as you transition to the next phase of life. The pressure is on, especially ensuring your retirement savings last longer.

Some retirement experts suggest saving 25 to 30 times your estimated annual expenses. It could be lower depending on the desired lifestyle. Aside from living below your means, your investment choices must be capable of providing income for centuries, no exaggeration.

Income for the long haul

The **Bank of Montreal** (TSX:BMO)(NYSE:BMO) owns the longest dividend track record. Canada's fourth-largest bank started paying dividends in 1829 and the pioneer at that. The practice continues to this day, so it should give would-be investors the incentive to invest.

You can purchaser the stock at $76.25 per share and get paid a 4.29% dividend. The payouts are sustainable as the payout ratio is less than 60%. Someone who accumulated BMO share and owns $500,000 worth today is receiving $21,450 in annual dividends. The amount is more than the yearly average Canada Pension Plan (CPP) and maximum Old Age Security (OAS) pensions at age 65.

The point here is that you can save enough if you have an investment horizon of 20 years or more. Similarly, it assumes that your spending and debts will not set back your retirement goals. An investor-friendly stock like BMO will not necessarily ensure an early retirement. However, by the time your pensions kick in, you'll have more everlasting cash flows.

Retirement requires a sensible decision

While early retirement is enticing, the cons outweigh the pros. You can still embrace financial independence without going to the extremes. The last thing you want is to go back to work because of financial distress.

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