Retire by 50: 5 Steps You Can Take for Early Retirement

Description

Is it overly ambitious for Canadians to think of retiring at 50? The theoretical answer is no, but only if you earn more than you spend. Times are challenging with the ongoing pandemic, although the early retirement option isn't entirely impossible.

The odds are daunting if you look at the average retirement age in Canada. Pension programs like the Canada Pension Plan (CPP) and Old Age Security (OAS) pegs the standard claim at age 65. A user can claim the CPP as early as 60 but must wait until 65 to start OAS benefits.

If your goal is to retire at 50, that would be 15 years ahead of your contemporaries. The minimum requirement to make your dream come true is financial discipline. However, it should come with advance planning to set you on track to your destination.

1. Start early and save 20% or more of your income

Ideally, it would be best if you were at least 25 years old today to have a 25-year horizon to save and invest. If you're dead serious about your goal, you might have to save 20-30% of your yearly income. In case you're older, the percentage could be higher so as not to blow your chances of early retirement.

2. Live below your means

Living beyond your means is disastrous, but living below your means entails supreme sacrifice. You might have to spend only 70-80% of your disposable income and bank the remaining money.

3. Stay out of debt

You'll wreck your early retirement plan if you don't stay out of debt. Outstanding loans, includinginterest costs, will diminish your net worth. The cost of living also increases when you're paying debtsin retirement. As much as possible, you should be debt-free by 50.

4. Accelerate your capital accumulation

The Tax-Free Savings Account (TFSA) is the best vehicle to accelerate retirement savings or wealth. You should have one by now to put in assets that will produce non-taxable income. Remember that taxes are also obstacles to early retirement.

5. Maximize every dollar you invest

The last step is to maximize every dollar you invest in a TFSA. If you're looking for a dependable partner to grow your nest egg, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is the no-brainer choice.

Canada's largest bank is a blue-chip asset supported by 15 decades of consistent dividend payments. Over the last 20 years, RBC's total return is 953.79% (12.48% CAGR). Current investors are ahead by 12% year to date. If you were to invest today, the dividend yield is 3.72%.

Assuming you save $10,000 per month or $120,000 in a year, the capital should compound to $299,050.10 in 25 years. If you decide to wait until 65 to retire, the investment will swell to $517,227.46. The magic of compound interest comes to play when you don't touch the money and keep reinvesting the dividends.

Whether you retire at 50, 60, or 65, Royal Bank of Canada's payouts are enduring, if not forever. You can sleep easy and not worry about market disruptions.

Don't force the issue

Canadians with early retirement dreams need to forego many things so as not to undermine the plan. However, don't force the issue if you're not up to the arduous task. It might be better not to rush and retire 15 years early.

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