Late Start to Retirement Savings? How to Catch Up Quickly

Description

When it comes to saving for retirement, you can never start too early. Of course, that's easier said than done. Most Canadians never live up to their ambitious savings goals. The high cost of living coupled with high taxation has left families with paltry savings. Historically, the household savings rate in the country has been below 5%.

It's no surprise that less than half of the Canadian working age population feels financially prepared for retirement. The anxiety about this savings deficit could magnify as you get closer to the age of retirement. If you believe you're late to the game, here's how you can catch up quickly.

Avoid the speculation temptation

If you're in your 50s with no retirement savings, speculating on high-growth stocks could be a tempting way to jumpstart your wealth-creation journey. After all, speculative assets, tech stocks, and cryptocurrency have delivered stunning returns in recent years. A $10,000 investment in **Shopify** six years ago would have comfortably secured your retirement today.

However, picking the *next* Shopify isn't going to be easy. For every major tech success story, there are countless bankruptcies and failures. When you're late to the game, you can't afford to lose capital when these volatile stocks experience significant drawdowns. Protecting capital is far more important than building it at this stage.

Instead, a better strategy would be to focus on growth stocks that offer some degree of visibility and predictability.

Dividend growth

Focusing on companies with significant cash flows and a robust plan to expand cash flow over time is, in my opinion, the best way to catch up on retirement savings. Take **TransAlta Renewables** (TSX:RNW) for example. The company owns and operates renewable energy power plants across the world. These include wind farms, solar farms, and hydroelectric stations.

The stock offers a respectable 4.7% dividend yield. However, that dividend is likely to keep expanding for the foreseeable future. TransAlta raised the dividend 6% this year. It's aiming for 10% growth in earnings by the end of 2021.

Over the next few decades, governments across the world are likely to invest heavily in renewable energy infrastructure. This wave of capital should benefit established players like TransAlta. In other words, the company's dividend growth is more predictable than picking winners from e-commerce or cryptocurrency.

Dividend growth for retirement

Dividend-growth stocks like TransAlta Renewables can help you build retirement savings relatively quickly. Imagine you're 50 years old with no savings. If you save 10% of your annual income and invest it in TransAlta, you could leverage the magic of compounding. You could save up a hefty six-figure sum within 20 years.

TransAlta's 4.7% dividend yield coupled with its 6% annual dividend-growth rate should turn $10,000 in annual savings into $532,417 by the end of the 20-year period. However, this calculation doesn't account for capital gains on the stock price. Assuming TransAlta's stock price appreciates by 5% every year, the $10,000 annual investments could turn into $617,666 over the same period.

Dividends on this amount would be enough to cover your basic living expenses. Of course, this passive income will be combined with payments from the government's Old Age Security pension and Canadian Pension Plan programs. In other words, you could secure your retirement without taking much risk.

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