How Much You Need to Retire At 40 With $35,000 Passive Income?

Description

Early retirement is a goal for many Canadians. Yet for most, it remains out of reach. According to a **Scotiabank** poll, 70% of Canadians think they won't have enough money saved at retirement age–let enough earlier. For this reason, early retirement is more a fantasy than a reality for the average Canadian. But it *can* be achieved. With prudent saving and the right mix of investments, almost anybody can retire at 40 or younger. In this article I'll explore how much money you'd need to have saved to retire on $35,000 in annual investment income

As little as $500,000

While most Canadians believe they need $700,000 or more to retire, it could be done with far less savings than that. With a very high yield portfolio, you could get $35,000 a year in annual retirement income with just $500,000 saved.

Here's how the math on that works.

- Take an asset that yields 7% annualized.
- Invest $500,000 in it.
- Get $35,000 in annual dividends or interest.

To elaborate on that last item on the list:

Your *after tax* return will be different depending on whether you're earning dividends or interest. Interest is taxed at your marginal tax rate, while dividends are "grossed up" and given a 15% tax credit. For this reason the after-tax amount is higher with dividends than with interest. Many advisors recommend that you hold bonds over stocks in TFSAs for this reason; the tax-sheltering is more necessary for bonds.

Two assets that currently yield 7%

So far I've shown that you can establish a $35,000 a year income stream with $500,000 invested. That's pretty straightforward on paper. Just find assets yielding 7% and live off the dividends or interest. Simple!

The only problem is actually finding assets with that high of a yield. Treasury bills yield less than 2% and the TSX yields about 2.5%. There frankly isn't a lot out there yielding 7%.

However, I was able to find two investments worth noting that make the grade. They are:

Enbridge Inc (TSX:ENB)(NYSE:ENB) stock. This is an energy stock with a 7.2% yield. Its earnings have grown by 13.5% annualized over the last 10 years, and its dividends have grown by 10.2% per year. As this business grows, it passes ever larger amounts of earnings on to investors. And grow it may. With North America gravely lacking in pipeline capacity, Enbridge's pipes are typically filled to capacity. The company does face some risks due to the pipeline shutdown in Michigan, but appears likely to prevail. Overall, this is one energy investment that could throw off buckets of income for years to come.

Another is the **BMO Covered Call Utilities ETF** (TSX:ZWU). This is an ETF that invests in telcos, utilities and energy stocks, and uses covered calls to increase the yield. Utilities in general pay pretty high yields (generally, 3%-4%), but with covered calls, the yield goes even higher. By writing covered calls, the BMO fund collects premiums from investors. These can be paid out to shareholders along with the dividends paid by the stock portfolio. As a result, ZWU has managed to achieve a whopping yield of 7.67%. That's easily enough to achieve $35,000 a year with $500,000 invested.

CATEGORY

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:ENB (Enbridge Inc.)
4. TSX:ZWU (Bmo Covered Call Utilities ETF)

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