Freedom at 50? How Millennials Can Save $2 Million and Retire Early

Description

There are some pretty insane tactics that investors use to retire early — especially if they're looking to create enough income to retire before 50. Some investors out there will save practically every penny they have, up to 80% in some cases, and basically live in poverty just to reach a goal. But millennials looking to achieve financial freedom and retire early (FIRE) don't have to take this route.

In fact, there is a simple way to achieve FIRE while still paying your bills and living the life you want. After all, how will you know how much to save if you're not living the life you hope to in retirement?

With that in mind, today, I'm going to look at how millennials can save upwards of $2 million by the time they hit 50. Don't get me wrong; it still will take a commitment, but definitely not 80% of your income.

First, your savings

The very first thing a millennial (in this case, we'll assume they're 25) needs to do is create some savings. Millennials are quite good at saving, with the average having about $28,000 set aside. If that's the case, the first step is to invest it. In this case, I would go with a Tax-Free Savings Account (TFSA).

The benefit of a TFSA over a Registered Retirement Savings Plan (RRSP) in this example is, a millennial can take out the cash anytime, tax free. This is beneficial if you want to retire at 50 and keep your other savings in your RRSP, so you can take out larger sums down the line.

Now, if you don't have savings, that's fine! You can start by looking at your budget. Yes, you need a budget. Look at the costs that make up your household each month, and *don't* skip out on things like entertainment or eating out. You want to plan realistically — not in some ideal world where you're not going to order pizza for 25 years.

Then see what you can afford. A good place to start is around 10% of your paycheque. So, if a millennial makes around $50,000 per year, that would mean $6,000 annually to your TFSA. Luckily, that's the contribution limit! Haven't started a TFSA? That limit is even higher at $75,500 as long asyou were at least 18 in 2009 when it opened.

Next, the investment

Now comes the real trick. Once you have savings, you want to choose an equity, exchange-traded fund, or what have you that will give solid, high *dividends*. This is key. By reinvesting dividends, you can reach that $2 million mark *far* sooner than if you were to keep the dividends and spend them. The more you invest, the more dividends you receive, and the snowball gets bigger and bigger.

In this example, I'd consider **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) an excellent place to start. It offers the highest dividend of the Big Six banks at $5.84 per share per year. So, if you were to invest $6,000 today, that would give you $237 per year in dividends.

Finally, contribute, contribute, contribute!

Did I mention "contribute?" This is what a millennial needs to do, no matter what (unless there is some kind of emergency, of course). The easiest way to make sure you keep collecting cash is to create automated deposits into your TFSA. Then, when there is a drop in CIBC, you invest! Or, you can simply set a time to invest in the stock each month. Either way, investing over a 25-year period will certainly create large gains and a stockpile of dividends.

So, if you're a millennial contributing $6,000 each year and investing in CIBC stock, reinvesting dividends, let's see what you would get after 25 years. First, you'll need to take your savings of about $28,000 and put it towards the stock. Taking into account historical growth in share price and dividends, you could have a portfolio worth just over $2 million by the time you hit 50!

Don't have that $28,000? It'll take a bit longer, but if a millennial can put $6,000 towards the stock each year, it would only take five more years to reach that $2 million mark! It's something to consider before putting a collection of cash into savings.

Foolish takeaway

If you want to hit FIRE at 50, it is definitely possible. While it takes consistency and reinvesting, Motley Fool investors can use this method to hit that freedom mark and enjoy the next 50 years worry free.

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