Retire Early: 4 Steps to Take

Description

Early retirement isn't an option for everyone, especially when inflation is abnormally high, like it is today. However, it's still possible for people who have prepared for it since their first paycheque. Exiting the work life ahead of your peers or before 60, at least, requires discipline and meticulous planning.

Retirement life could be harsher than in your working years because expenses in the sunset years could bloat, not diminish. Some Canadians start their Canada Pension Plan (CPP) payments at 60, collect the Old Age Security (OAS) benefit at 65, and yet faces serious financial challenges.

The key to a comfortable retirement, whether early or late, is preparation. You must have sufficient resources to meet all financial needs, planned and unexpected. If you're one of those with early retirement dreams, consider taking four steps starting right now.

1. Firm up your retirement goal

Early retirement is a fantasy, unless you have an actionable plan. Assuming you intend to maintain your pre-retirement lifestyle or close to it, determine the amount of cash you can free up or sock away regularly for saving and investing. Idle cash will not cut it, so investing is a must for money to realize the power of compounding.

2. Create a budget

Budgeting is an integral part of early retirement planning, because you have long years ahead of you. Thus, exhausting your retirement fund isn't an option. Evaluate your expenses or spending then create a budget. It would help to have mock budgets for different scenarios and adjust accordingly.

3. Prioritize debt payments

It's understandable that most retirees would have outstanding mortgages when they retire. However, prioritize repayments of bad debts like credit cards if you want a real crack at early retirement. The journey should be smoother the sooner you can be rid of debts. Also, don't obtain new loans or risk setting back your timeline.

4. Make full use investment accounts

The Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) are investment accounts available to Canadians. Use your savings to maximize your contributions to the tax-sheltered or tax-advantaged account, or both. Building wealth through the RRSP and TFSA is faster because of their tax-free money growth features.

Wealth builder

Inflation risks are real, although you can mitigate them with sound investment choices. An ideal anchor when you set out to sail is **Enbridge** (TSX:ENB)(NYSE:ENB). The $110.88 billion energy infrastructure firm is the third-largest publicly listed company in Canada after **RBC** and **TD**.

While the big banks boast dividend track records of more than a century, Enbridge has raised its dividends for 26 consecutive years. If you invest today, the share price is $54.72, while the dividend yield is 6.29%. A $50,000 investment will produce $786.25 in passive income every quarter.

Assuming the yield is constant, and you hold the energy stock for 20 years, your capital would compound to $169,362.85. Enbridge lost -19.56% in 2020 during the oil slump and returned 22.16% when demand returned in 2021. As of this writing, investors are up 14.24% year to date.

Make it happen

Early retirement is pleasant to imagine, but only a few people can make it happen. You must be prepared to make changes in spending habits and throw every extra "loonie" into savings and investments. Also, time should be on your side to succeed.

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