Multiple Income Streams are the Key to Early Retirement

By Eric Gaddy

Ask an accountant what retirement is and they'll tell you that it's the transition from one fixed income to another. And traditionally speaking, this is correct. You go from your full-time wage to a pension or Social Security. On paper, retirement isn't dramatically different.

But we all know that when you put it into practice—when you live it—retirement changes everything. It's the difference between working yourself to death and savoring the best years of your life.

When I turned 48, after 24 years as a financial advisor, I decided I was going to retire early rather than wait until the traditional retirement age of 65. After experiencing the loss of two people close to me, I realized I didn't want to work my life away. The trouble was, I didn't have another fixed income to transition to.

I'm not eligible to receive Social Security or my pension until I'm in my 60s. So, to make an early retirement work, I had to think differently about what retirement was going to be for me. Rather than transitioning to another fixed income, I needed to create multiple variable incomes.

If you retire in your 40s or 50s your income will almost certainly be variable. That means it won't be reliable, and it won't be consistent. You may have income such as dividend-paying stocks or rental income that seem pretty steady, but there are no guarantees. A part-time job has an even higher likelihood of variability. If you have a source of fixed income, such as a pension, consider yourself lucky. Even luckier if it covers your expenses. Most people retiring early won't have that luxury.

The key to creating a comfortable retirement without a fixed income is to create a diversity of variable incomes. Having only one or two is risky. It's like driving without a spare tire. Sure, most of the time you'll get to where you're going without incident. But, if a single tire fails, you're left stranded. You must consider what happens if one of those streams decreased or disappeared, would it derail your entire retirement plan? Having several variable income streams significantly reduces that risk and will not only cover your expenses but perhaps even grow your assets so that you can wait longer before turning to your Social Security or other fixed income streams down the road.

Common variable incomes, like brokerage accounts, real estate, owner financing a business, or part-time jobs, are risky as sole income sources. But once you start to combine them, you'll begin to see a steady, more consistent income flow, even when one income decreases.

Relying on a brokerage account income alone—made up of stocks, bonds, and mutual funds—would be too risky in a floundering market. Even if you are taking a steady withdrawal, the market and inflation will likely have their way. For example, you might start off taking a 4% income withdrawal from your account. However, if the stock market dropped by 50%, your 4% withdrawal just became an 8% withdrawal. An 8% withdrawal stream is a dangerously high withdrawal that could lead you to running out of money if you don't make the proper adjustments. Real estate, long considered the stalwart of the investment world, can be variable depending on your location and the type of income producing real estate you own. For example, buying a home to fix up and flip for a profit can be highly lucrative, but also can lead to losses if the market turns against you.

Owner financing your old business can be a great way for you to create an income stream for a specific number of years, as well as spread your taxes over many years. If you sell your business to the right person or group, you can enjoy an income stream set out by the terms of your sales agreement. If it turns out that you sold your business to the wrong person or group, you might find your income stream starts fluctuating. They may not pay on time or not pay the entire amount due. Getting a part-time job or having a side-income in retirement can provide income at a fraction of the stress of a career. You can often do something you enjoy and set the parameters on how many hours you work. In the digital world, there are more ways than ever to set up an online business, and it's not just for millennials. Plenty of folks in their 50s (myself included) are learning how to navigate this digital world and make money from it. Think YouTube, blogs, and podcasting.

An old colleague of mine, Tom Scharf, retired two years ago at the age of 41. He told me: "I keep my cost of living low, only working when I want, on what I want. I diversified my income so that I didn't have to rely on just one." Tom was a financial advisor for 17 years before transitioning into retirement. He created multiple income streams by owner financing his business, monetizing his YouTube channel that now has close to 25,000 followers, starting a part-time landscaping business, and creating a coaching program to help others get out of debt. He also lives on a small farm where he sells eggs, vegetables, and goat milk soap.

Taken alone, these vaiable income streams might not be strong enough to replace a full-time career or indeed a pension or Social Security. But together they create a consistent income flow, similar to what you might expect from a fixed income. Once you have a clear view and a good plan regarding how both your variable and fixed income streams are set up, you will be off and running.

Editor's note: Eric Gaddy retired at age 48, after 24 years as a financial advisor. He is the head nomad at *Retire Early 365* and author of *Retire Early: What Are You Waiting For?*