Rodger on Retirement

Dividend Growth in Retirement

One of the greatest challenges in preparing for retirement is to figure out how to create increases in your income equal to, or better yet, greater than, the annual increases in your expenses. So what kind of strategy may provide increases in your income greater than the rate of inflation? While there is no guaranteed method I am aware of, focusing on a rising dividend strategy may offer some possible solutions. Many listed common stocks offer rising dividend streams. Theoretically, if a corporation is doing well with rising revenue and net income, and their management philosophy is to reward shareholders, they may be inclined to begin paying cash dividends, or increase dividends over time.

For teaching purposes, I will focus on comparing dividend increases on five listed common stocks to increases in the Consumer Price Index (CPI) over the last five years. The companies I chose are all listed on the New York Stock Exchange, and in the spirit if full disclosure, I am a shareholder in each. That said, I am in no way recommending these companies. This is for illustration purposes so as to understand the real world concept of rising dividends. Dividend payment and dividend increase information provided by www.StreetInsider.com and www.1Stock1.com.

Year	CPI	Johnson & Johnson	Kimberly Clark	MMM	Honeywell	Proctor & Gamble
2015	0.7%	7.1%	4.8%	19.9%	15%	3.0%
2014	0.8%	6.1%	3.7%	34.6%	15%	7.0%
2013	1.5%	8.2%	9.5%	7.6%	9.8%	7.0%
2012	1.7%	7.0%	5.7%	7.3%	10.1%	7.0%
2011	3.0%	6.6%	6.9%	4.7%	12.8%	9.%

If you study the numbers above, you will see that the increase in inflation (CPI) over the last five years has been somewhat muted, with the largest increase of 3% occurring in 2011. Note that these increases in the annual inflation rate are mostly under the long-term inflation trend line of approximately 3%. Now notice the increases in cash dividends paid by the five companies listed above. Not only have they increased at a greater rate, the smallest dividend increase was 3%, a rate that matched the 2011 CPI increase. The dividends of the companies increased at a much greater rate than the CPI. These companies are not representative of the entire market. Importantly, you should be aware that each company's board of directors must approve cash dividends annually. Companies may vote to increase, decrease, or suspend cash dividends at any time.

What I have attempted to communicate to you here is simply an idea – the idea that increases in cash dividends of common stocks *may* be useful as a part of a diversified plan for retirement income.

Rodger Alan Friedman has over three decades of experience designing and managing retirement portfolios and advising clients on retirement matters. For additional information and a free special report on preparing for retirement, call 1-844-3-MY-PLAN or visit www.RodgeronRetirement.com.