3 Surprisingly Easy Ways Anyone Can Become an RRSP Millionaire

Description

Let me start this off with some bad news. Unless you're retiring in the next 10 or so years, getting to $1 million in savings will be the minimum needed to have a secure retirement.

These days, people are living longer than ever. The average 65-year old has nearly 25 years of life ahead of them, and that's not factoring in any inevitable medical advances. For the younger generation, this could have a profound effect. Somebody who is currently under 30 could easily live to 100 or 110.

Plus, inflation will undoubtedly rear its ugly head. Yes, inflation is pretty calm right now, but even if it averages 2%, your purchasing power is cut in half every 35 years or so. Inflation is a very real threat, especially when it's combined with longer lifespans.

With that in mind, I think it's imperative to get to at least $1 million in retirement savings. Here are three ways anyone can get there.

Work longer

It's amazing how just five extra years in the workforce can make a huge difference in saving for retirement.

Take two identical workers. They both put aside 10% of their $50,000 salary over their working lives starting at age 30 and earn 8% annually. One works until 65, the other one sticks around until 70. To keep the scenario conservative, I've assumed neither gets a raise in their working lives.

Both are well on their way to a secure retirement. The first worker has 35 years to build his nest egg, watching it grow to just over $1 million. But if he would have stuck around for another five years like the second worker, he'd be up to $1.51 million in retirement savings.

An extra $500,000 is the difference between a comfortable retirement and ensuring you have enough to leave to the grandkids.

Use tax refunds

One of the big perks of investing in an RRSP over a TFSA is the former's tax benefits.

For the sake of argument, let's assume you're in the 25% tax bracket. If you contribute $5,000 to a RRSP, you'd receive a $1,250 tax refund the following April. If you took that $1,250 and immediately put it back into your RRSP, you'd have an easy way to increase your contribution to $6,250.

This just compounds over time. Assuming the same tax bracket, the next year you'd get a $1,562 tax refund, translating into a $6,562 RRSP contribution the year after. The year after that, you'd get a $1,641 refund, which would up the contribution to $6,641.

Putting the tax refund right back into the RRSP ensures a guaranteed return of whatever the marginal tax rate works out to be. No other investment will do as well.

Buy high-quality stocks

Over the years, Canadian investors who have stuck to quality blue-chip stocks and held them for decades have tended to do pretty well.

Take **Royal Bank of Canada** (TSX:RY)(NYSE:RY), Canada's largest bank. Even through depressions, world wars, and everything else a market can possibly throw at a company, Royal Bank has been a solid performer. With its dominant position in Canadian retail banking and its continued expansion south of the border, it looks primed to continue its decades of outperformance–even if the Canadian housing market suffers.

Over the last 20 years, the return that investors have enjoyed from Royal Bank has been incredible, averaging 15.3% annually if the dividends were reinvested. Or to put it another way, just $2,500 invested in the stock back in November 1995 would be worth more than $43,000 today, excluding commissions or any other costs.

Another terrific stock to hold over the long term is **Telus Corporation** (TSX:T)(NYSE:TU). Telus has spent billions building perhaps the finest wireless network in Canada. It also has a leading market share in western Canadian home phone and Internet markets. Additionally, Telus is actually growing its cable and satellite television division in an environment where most of its competitors are seeing subscriber counts go down because of cord cutting.

Although Telus shares haven't done quite as well as Royal Bank's–partially because the company went through a rough patch in the early 2000s–it's still been a good investment. An amount of $2,500 invested in the company 20 years ago with dividends reinvested would be worth nearly $17,000 now. That's a return of right around 10% annually.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TU (TELUS)
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