Retirement Savers: Turn Your RRSP Into a $750,000 Mini Pension

Description

Do you want to increase your retirement income by building a large RRSP balance that can pay you in your golden years?

It's a goal that many retirement savers share. But the hard truth is, if you're saving $10,000 a year, you'll only build up $300,000 in 30 years. That's a problem because, according to financial advisors, the average amount a Canadian needs to retire comfortably is [between $650,000 and $750,000](). To save up to the higher end of that range, you'd need to put away $25,000 a year for 30 years.

For most people, that isn't happening. The vast majority of Canadians don't have $25,000 a year to stash away. So, to reach a comfortable RRSP balance, you'll need to invest wisely. While you'll never get to $750,000 by saving $10,000 a year, you could easily get there by investing with only a 10% annualized rate of return. And, once you get there, you can easily build an income stream that could set you up for life.

How much income can you generate with $750,000?

If you invest $750,000 in dividend stocks at an average yield of 4%, you'll earn $30,000 in dividends per year. If you've got your house paid off and have minimal recurring expenses, that combined with CPP and OAS could easily be enough to live off. And the really cool part is that it needn't even take that long to get there. Following the [rule of 72](), it takes approximately 7.2 years to double your money when earning 10% a year. If you could keep up that rate of return, then you'd only need to save $100,000 to end up with $750,000 in 20 years.

Two solid stocks for dividend income

If you want to start gradually building up to a $750,000 retirement nest egg, the best way to do it is with dividend stocks. Although you can get better returns with growth stocks, there's much more risk involved — and high risk isn't ideal for retirement accounts.

One dividend stock that's highly suited to retirement investing is **Fortis** (TSX:FTS)(NYSE:FTS). A utility stock with a 3.5% dividend yield, it's a "slow and steady" dividend grower with a historical average return around 10%. Fortis's earnings are extremely stable because, as a utility, provides an indispensable service that people can't cut out even in the worst of times. Beyond that, it's also a fairly growth-oriented company for its industry, spending considerable amounts of money on acquisitions decade after decade. Just recently, the company won a landmark deal to supply LNG to China — the first of its kind in Canada. As a result of these growth projects, the company has outperformed the utilities sub-index year after year.

Another great stock for retirees is **Algonquin Power & Utilities**. Like Fortis, it's a regulated utility with a highly dependable, recession-proof revenue stream. However, this particular utility stock has a little more growth potential. As a smaller company, it could grow more rapidly than a mature company like Fortis could. Over the last five years, its shares have outperformed FTS by a considerable margin. It also has a higher dividend yield. However, AQN missed on earnings in three out of the last three quarters, which may make it a slightly riskier bet than FTS.

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andrewbutton