Here's How Much Money You Need by Age 50 to Reach $1,000,000 by Retirement

Description

Saving for retirement is a concern for many people. But knowing how much you need can be half the battle and help give you a guide in determining how much you need to be saving in order to be on track for your goals.

The $1,000,000 mark is a good benchmark for retirement, but it's also important to have an interim one as well, such as at the age of 50, to know how close you are to reaching your target and if you need to make any adjustments to your investing strategy.

If by 50 you're far below where you expected to be, you may need to either adjust your expectations for retirement, try to save more money, or take on more risk in the hopes of earning even better returns. Otherwise, you could be in for a rude surprise come retirement if you haven't been keeping a close eye on your portfolio.

Calculating how much you need

In order to know how much you'll require by age 50 to get to $1,000,000 by 65, you will need to work backwards and assess what a realistic return is every year.

A good way to gauge this is by looking at the returns of one Big Five bank. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) has generated returns of close to 50% over the past five years.

That averages out to a compounded annual growth rate of 8.4% annually. Add that on top of the bank's 4% dividend yield and you might expect to earn 12.4% annually from holding shares of RBC.

Of course, that doesn't factor in any dividend growth. Typically the bank hikes its dividends every year and holding the shares over the long term you'll end up earning even better than a 4% dividend.

However, to be more conservative, we'll assume the dividend remains constant. And as the past five years have been fairly bullish, we should also adjust our expected annual returns from dividends and capital appreciation down to a more modest 10%.

If we work backwards from the start of age 65 and $1,000,000, this is what our portfolio would need to look like over the years if it grows at a rate of 10% per year:

Age	Balance
65	$1,000,000
64	$909,091
63	$826,446
62	$751,315
61	$683,013
60	$620,921
59	$564,474
58	$513,158
57	$466,507
56	$424,098
55	$385,543
54	$350,494
53	$318,631
52	$289,664
51	$263,331
50	**$239,392**

You'd need roughly around $240,000 by the age of 50 to be in decent shape for your portfolio to continue growing at a rate of 10% annually and to reach $1,000,000.

Those returns are more attainable if they're a combination of dividends and capital appreciation, which is the assumption we're making here. You'd also need to reinvest the dividends as well.

What if you're not on track?

If by age 50 you realize you're nowhere near reaching $240,000 and you'll fall short of your goals, it's a good time to re-evaluate your portfolio and see what adjustments you need to make.

If your investments are mainly in stocks like Royal Bank that offer good dividends and modest returns, you may want to look at being more aggressive with respect to either obtaining higher yields or stocks that are more likely to rise at a higher rate (e.g., growth stocks).

Ideally, you'd like to have a portfolio of safe stocks like RBC to hold given that they're low in volatility, provide good payouts, and are stable investments to hold.

Unfortunately, holding these types of conservative investments may not yield the results investors are looking for, and making an adjustment is sometimes necessary.

The good news is that by age 50, you still have 15 investing years left, and so it may not be too late to adjust your strategy. It may involve trying to find ways to add to your savings rather than changing which stocks you hold in your portfolio.

But by planning and having a strategy, you'll at least be able to minimize the chance of a disappointment come retirement.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

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