



Retirement Planning: How Can You Reach \$1,000,000 in Savings?

Description

Saving for retirement can be a challenge, especially knowing that you probably need close to \$1,000,000 to be able to live comfortably. Sure, your lifestyle will change and your expenses will change.

You'll also have Canada Pension Plan (CPP) and Old Age Security (OAS) payments to help get you through retirement. However, scraping by and making do with what's available is probably not a decision you're going to be fond of when the time comes to retire.

That's why it's important to start saving well before then and at least make an effort toward building up your savings as close to the \$1,000,000 mark as possible. And below, I'll show you how you can do that while diversifying and not taking on too much risk.

The key to growing your portfolio is putting money aside regularly to ensure that you not only get the benefit of compounding from the funds already sitting in your portfolio, but also new funds adding to those returns as well.

In an ideal scenario, you would contribute a lump sum and then \$6,000 per year to your Tax-Free Savings Account (TFSA), which is the current year's additional contribution room. If we assume that will remain constant, investors can potentially add a lot of cash to their TFSAs and benefit from the earnings those investments make over time.

Let's look at a scenario in which you might invest \$50,000 today and then \$6,000 per year in an exchange-traded fund like the **BMO Canadian Dividend ETF** ([TSX:ZDV](#)), which provides investors with a dividend yield of 4.3% annually.

It also features many big-name stocks from various industries that can help add some diversification as well. If we assume that the ETF will rise at a rate of 5% per year plus generate [dividend income](#), here's what your portfolio may look like over time under the above scenario:

Year	Total Contributions	Beginning Portfolio Balance	Growth	Ending Portfolio Balance	Dividends	Total Dividends	Portfolio + Dividends
1	\$50,000	\$50,000	\$2,500	\$52,500	\$2,150	\$2,150	\$54,650
2	\$56,000	\$58,500	\$2,925	\$61,425	\$2,408	\$4,558	\$65,983
3	\$62,000	\$67,425	\$3,371	\$70,796	\$2,666	\$7,224	\$78,020
4	\$68,000	\$76,796	\$3,840	\$80,636	\$2,924	\$10,148	\$90,784
5	\$74,000	\$86,636	\$4,332	\$90,968	\$3,182	\$13,330	\$104,298
6	\$80,000	\$96,968	\$4,848	\$101,816	\$3,440	\$16,770	\$118,586
7	\$86,000	\$107,816	\$5,391	\$113,207	\$3,698	\$20,468	\$133,675
8	\$92,000	\$119,207	\$5,960	\$125,167	\$3,956	\$24,424	\$149,591
9	\$98,000	\$131,167	\$6,558	\$137,726	\$4,214	\$28,638	\$166,364
10	\$104,000	\$143,726	\$7,186	\$150,912	\$4,472	\$33,110	\$184,022
11	\$110,000	\$156,912	\$7,846	\$164,758	\$4,730	\$37,840	\$202,598
12	\$116,000	\$170,758	\$8,538	\$179,296	\$4,988	\$42,828	\$222,124
13	\$122,000	\$185,296	\$9,265	\$194,560	\$5,246	\$48,074	\$242,634
14	\$128,000	\$200,560	\$10,028	\$210,588	\$5,504	\$53,578	\$264,166
15	\$134,000	\$216,588	\$10,829	\$227,418	\$5,762	\$59,340	\$286,758
16	\$140,000	\$233,418	\$11,671	\$245,089	\$6,020	\$65,360	\$310,449
17	\$146,000	\$251,089	\$12,554	\$263,643	\$6,278	\$71,638	\$335,281
18	\$152,000	\$269,643	\$13,482	\$283,125	\$6,536	\$78,174	\$361,299
19	\$158,000	\$289,125	\$14,456	\$303,582	\$6,794	\$84,968	\$388,550
20	\$164,000	\$309,582	\$15,479	\$325,061	\$7,052	\$92,020	\$417,081
21	\$170,000	\$331,061	\$16,553	\$347,614	\$7,310	\$99,330	\$446,944
22	\$176,000	\$353,614	\$17,681	\$371,294	\$7,568	\$106,898	\$478,192
23	\$182,000	\$377,294	\$18,865	\$396,159	\$7,826	\$114,724	\$510,883
24	\$188,000	\$402,159	\$20,108	\$422,267	\$8,084	\$122,808	\$545,075
25	\$194,000	\$428,267	\$21,413	\$449,680	\$8,342	\$131,150	\$580,830
26	\$200,000	\$455,680	\$22,784	\$478,464	\$8,600	\$139,750	\$618,214
27	\$206,000	\$484,464	\$24,223	\$508,688	\$8,858	\$148,608	\$657,296
28	\$212,000	\$514,688	\$25,734	\$540,422	\$9,116	\$157,724	\$698,146
29	\$218,000	\$546,422	\$27,321	\$573,743	\$9,374	\$167,098	\$740,841
30	\$224,000	\$579,743	\$28,987	\$608,730	\$9,632	\$176,730	\$785,460
31	\$230,000	\$614,730	\$30,737	\$645,467	\$9,890	\$186,620	\$832,087

32	\$236,000	\$651,467	\$32,573	\$684,040	\$10,148	\$196,768	\$880,808
33	\$242,000	\$690,040	\$34,502	\$724,542	\$10,406	\$207,174	\$931,716
34	\$248,000	\$730,542	\$36,527	\$767,069	\$10,664	\$217,838	\$984,907
35	\$254,000	\$773,069	\$38,653	\$811,723	\$10,922	\$228,760	\$1,040,483

Even adding \$6,000 per year, it would take about 35 years of consistent returns and dividend income to get your portfolio to \$1,000,000. However, a couple things to note here is that because this would be in a TFSA and the funds withdrawn wouldn't be taxable, you could get away with less than \$1,000,000.

Second, there's never any guarantee when it comes to dividends or returns, and depending on how well the ETF does, your portfolio's value could look much different over 35 years. Finally, you can always accelerate your portfolio's growth by saving more and investing more money into your portfolio.

Bottom line

Investing in an ETF is a good way to diversify and add income. While getting to \$1,000,000 is by no means easy, the above example is an approach that may be suitable for risk-averse investors who aren't willing to invest in a growth stock and put their savings in danger.

Under this scenario, investors would be relying on steady growth and dividend income to reach \$1,000,000, albeit there are certainly more [aggressive approaches](#) that investors can employ as well.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ZDV (BMO Canadian Dividend ETF)

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1. Business Insider
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