How Much Do You Need to Save for Retirement?

Description

The earlier you start saving and investing for retirement, the less you'll need to put into your retirement fund from your hard-earned savings. So, start planning for retirement right away, even if it's just tucking a small amount of savings away.

Monthly savings of $100 invested for a compound annual growth rate (CAGR) of 10% grows to $19,125 in 10 years, $68,730 in 20 years, and $197,393 in 30 years. If you instead saved and invested $500 a month, the amounts would be $95,625 in a decade, $343,650 in 20 years, and $986,964 in three decades.

One of the best ways to invest for that kind of healthy long-term returns is through stock investing.

Let's get back to the question…

How much do you need to save for retirement?

While no one has a crystal ball to look into the future, we can begin to answer the question by extrapolating from our current spending habits to get a glimpse of our future spending.

Calculate how much you're spending every month. The monthly bills are easy to tally up — internet, utilities, mobile phone, rent/mortgage, insurance, transportation etc.

Don't forget the variable costs and costs that don't come every month — food, entertainment, vacation, clothes, dental, medical, car maintenance, car insurance, emergency, etc.

Just note that in retirement, you will most definitely experience changes in your spending. For example, if you're a homeowner, you will likely have paid off your mortgage. Your vacation spending might increase, especially at the start of retirement. Your medical expenses might go up as well. So, always give yourself more leeway by saving and investing more while you're still working.

Let's assume that from your calculations/estimations, you guesstimate that you'll be spending about

$40,000 a year in retirement. You'll probably receive pension income or other forms of income. But let's be conservative and say that you'll be generating the entire $40,000 from your investment portfolio.

Since you can get safe yields of 3-4% in the stock market, to generate $40,000 a year, your retirement portfolio would need to be at least the size of $1,000,000 to $1,333,334.

These dividend stocks provide 3-4% yields

If you're close to retirement or need income now, starting a stock portfolio in quality dividend stocks that pay out yields of about 3-4% is a good idea. Many of these stocks also increase their dividends at a faster rate than inflation over time. They help more than maintain your purchasing power and are perfect for retirement.

You can explore bank stocks like **Canadian Imperial Bank of Commerce**, utilities like **Emera**, and telecoms like **TELUS**, especially when they fall during market corrections. At writing, they provide initial yields of 3.9%, 4.3%, and 4.4%, respectively.

Do you have years until retirement?

If you're still working and don't expect to retire for many years, consider investing in lower-yield but higher-growth stocks like **Enghouse Systems**, **goeasy**, and **Metro**. These types of dividend stocks could increase your dividend at a much faster pace than high-yield stocks.

Some investors would even go further by investing in pure-growth stocks — companies that are growing at a high rate, pay no dividend to focus all their capital in growing their businesses — growth stocks like **Alphabet**, **Amazon**, and **Shopify**.

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