How Much Should You Invest to Retire With $750,000?

Description

$750,000. For many Canadian retirees, it's the magic number.

According to a recent poll of financial advisors, this figure represents what the average Canadian needs to retire. A poll of Canadians wasn't far off the advisors' estimate, either: the average respondent said they needed about $630,000.

What you actually *need* for retirement depends on a number of factors. Where you live, how far into the future you'll be retiring, and how many children you have all play a role. Nevertheless, $750,000 is a good starting point. In this article, I'll explore how much money you would need to invest to get to $750,000 in retirement savings with a 10% annualized return.

Method #1: Gradual additions

There are two ways you can invest:

Adding gradually every year, or simply investing one lump sum and sitting on it for life. If you're very young, the former option makes more sense. If, on the other hand, you're already retired and got a windfall, the second one may be more appropriate. Generally, financial advisors recommend periodic additions, so I'll explore that method first.

If you get a 10% annualized rate of return, invest $10,000 a year with 30 years to go until retirement, you will hit the required investment within six years. Over that period, you will invest between 50,000 and $60,000.

Here's how the math on that works out:

- First $10,000 deposit – $174,494 after 30 years.
- Second $10,000 deposit – $158,630 after 29 years.
- Third $10,000 deposit – $144,209 after 28 years.
- Fourth $10,000 deposit – $131,099 after 27 years.

- Fifth $10,000 deposit – $119,341 after 26 years.
- Sixth $10,000 deposit – $108,347 after 25 years.

This sums to $835,690, getting us past the $750,000 goal.

Method #2: Lump sum

Another method you could use to get to $750,000 in retirement savings is to just invest a lump sum. This generally isn't recommended, but as mentioned earlier, it could make sense if you're already very close to retirement and recently landed a large windfall. For the purposes of this article, though, we'll consider someone starting out at age 30 and compounding from there.

We know that 1.10 to the power of 30 is 17.44.

We need an amount that, when multiplied by 17.44, gives $750,000.

We achieve this by dividing $750,000 by 17.44.

As it turns out, the result is $43,000. So, you can get to $750,000 in retirement savings after 30 years by investing as little as $43,000 up-front–assuming, that is, you manage to achieve that 10% annualized return.

A reasonable defensive investment you could make

The 10% annualized gain is, of course, the hard part of this equation. The list of investments that have failed to hit that return include:

- Bonds.
- Gold.
- GICs.

That's a decent number of possible investments that likely won't get you to 10% a year. Bonds and GICs almost certainly won't. Gold has a shot at it but hasn't done so recently. There is one asset class that could get you there:

Stock index funds.

Stock indexes tend to deliver 10% per year or better. The 10-year return for the S&P 500 is about 13.6%, and the long-term average is a little lower, but above 10%. Index funds are funds built on the S&P 500 and other stock market indexes. These funds are not *guaranteed* to perform, but they have a decent shot at it.

As a Canadian investor, one index fund you could consider is the **iShares S&P/TSX 60 Index Fund** (TSX:XIU). It's a fund built on the TSX 60–the 60 largest Canadian stocks by market cap. The TSX has delivered decent returns over the last few years, and those gains may continue well into the future.

The current environment is bullish for banks and energy stocks–both of which have heavy weighting on the TSX. So you may well get the coveted 10% annualized return over 20 years by investing in XIU. By the way, the fund has a very low 0.16% fee, and it pays a 2.3% dividend. So it has a lot of things to recommend it.

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