



Can You Retire a Millionaire With \$400 a Month? Only if You Do This...

Description

No, you don't need a six-figure income to retire a millionaire. A big income helps, true, but Canadians without one need not despair. There's another way to retire with dignity and wealth, and it's called compound interest.

Compound interest is interest piled on interest piled on *more* interest. It's your principal — the money *you* invest — plus the interest you earn on it, which includes any interest you earn on interest. For instance, if you invest \$10,000 in an [exchange-traded fund \(ETF\)](#) that earns 7% within the first year, you'd be left with \$10,700. The next year, your ETF earns 7% again. Your earnings are based on the \$10,700 — your principal plus your earnings — which means you'll earn \$749 your second year for a total of \$11,449.

This is much different than simple interest. With simple interest, you earn money based on your starting principal, but not any interest you've already earned. For instance, if you invest \$10,000 in a GIC with a simple interest rate of 3%, you'd earn \$300 in your first year. If you start your second year with a principal of \$10,000, then guess what? After the second year, you'd earn another \$300.

Okay, so why am I talking about compound interest? With compound interest, you can turn \$400 per month into a million-dollar nest egg. You just need a long time horizon — or, as Warren Buffett says, a "long hill to roll your snowball" — and investment portfolio that earns at least 7%. Let's take a look at how this works.

How long will it take \$400 per month to grow into \$1 million?

Let's say you invest \$400 monthly in an ETF that earns an average of 7% per year. With \$400 a month, you contribute around \$4,800 per year. With that rate of return, here's what you can expect:

Invest This Much Per Month...	For This Much Time...	With This Rate of Return...	And Your Retirement Savings Are...
\$400	10 years	7%	\$69,638

\$400	20 years	7%	\$209,586
\$400	30 years	7%	\$490,835
\$400	40 years	7%	\$1,056,050

So, with a rate of return of 7%, you can make a million dollars in just under 40 years if you invest at least \$400 a month.

40 years? Are you kidding me?

Look — I get it. Not all of us have 40 years to save money.

Fortunately, you have variables. For one, you could invest your money more aggressively (but wisely), helping you get a rate of return that's greater than 7%. Additionally, you could invest *more* than \$400 per month.

In regards to the first, let's say your rate of return was 9%, not 7%. At that rate, here's how long it would take you to become a millionaire:

Invest This Much Per Month...	For This Much Time...	With This Rate of Return...	And Your Retirement Savings Are...
\$400	10 years	9%	\$77,986
\$400	20 years	9%	\$269,158
\$400	30 years	9%	\$737,790
\$400	34 years	9%	\$1,079,257

With a rate of return of 9%, you can retire six years sooner. That's not bad, but maybe you want to retire even earlier than that. If so, let's increase your contribution from \$400 per month to \$1,000.

Invest This Much Per Month...	For This Much Time...	With This Rate of Return...	And Your Retirement Savings Are...
\$1,000	10 years	9%	\$194,966
\$1,000	20 years	9%	\$672,896
\$1,000	24 years	9%	\$1,021,139

Now *that* looks good, doesn't it? If you invest \$1,000 per month in a portfolio that earns an average of 9% each year, you'd have a million in 24 years.

How can you earn \$1 million faster?

First off, start investing as soon as you can. In fact, if you like, start as soon as you finish reading this sentence. Open an account with one of [Canada's best online brokerages](#) and start putting your money to work. The sooner you start, the more time you have to earn money off compound interest.

If you've already started investing, consider saving more than \$400 per month. As seen above, if you

increased your monthly contribution to \$1,000 you could retire a millionaire within 24 years (assuming a 9% rate of return). That comes down to \$250 per week.

Finally, if you can't contribute more money, you may have to retire later than you expected. Even a few extra years could give your money enough time to grow into a million.

CATEGORY

1. Personal Finance

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

PP NOTIFY USER

1. kduncombe
2. sporrello

Category

1. Personal Finance

Date

2025/08/11

Date Created

2022/04/12

Author

sporrello

default watermark

default watermark