



## Choose investments that can earn the rate of return (ROR) you need for retirement

If you've ever created a workback schedule for a project, you know the importance of beginning at the end: in order to make the right assumptions about what you need to do now, first you have to conceptualize the finished product, including what it should look like and what your time frame is.

It's the same for calculating the rate of return you need your investments to produce in order to accumulate sufficient savings for your retirement, says Pierre Saint-Laurent, president of AssetCounsel Inc., a Toronto financial services consultancy. "You have to assess how much you'll need, which is based on how much you plan to spend," he says. "Then work the math backwards."

It can be a good idea to enlist the help of your financial planner for this exercise. Or, first try this handy online

calculator: [www.finance.sympatico.ca/Fiscal/calculators/rrsp.html](http://www.finance.sympatico.ca/Fiscal/calculators/rrsp.html).

Suppose you want to aim for a yearly income of about \$50,000 in retirement. Assuming a conservative annual return of 6.5 per cent during your retirement, you would need to save about \$800,000 by the time you retire (because at 6.5 per cent interest, \$800,000 would produce an income stream of \$52,000 a year). Before you set that original goal, pick the age at which you want to retire and make sure the yearly amount will be sufficient.

The rate of return you strive for now should reflect how ambitious you need to be to meet your target.

### **FOCUS ON ASSET ALLOCATION, AND CONTRIBUTE FAITHFULLY**

Rather than specifying a particular return figure, such as 8 per cent or 12 per cent, it makes more sense to choose the asset allocation you're comfortable with.





Asset allocation is the mix of investment types in your portfolio, such as stocks, bonds and cash – all of which are available through mutual and segregated funds. In your twenties, you may be comfortable with a portfolio that contains up to 80 per cent stocks, an aggressive mix that's likely to produce the highest potential returns.

But later in life, as you near retirement, you'll probably want to rebalance your portfolio to reflect a more conservative asset mix in order to protect the gains you've made as you get closer to relying on them for income.

Of course, your expectations should be balanced against other factors, such as your risk tolerance and market realities. "A high, single-digit rate of return is often the best you can do, especially if you're uncomfortable with a high level of volatility," he says.

Keep in mind, also, that your portfolio is built primarily on savings – even luck and sky-high returns aren't going to turn \$1,000 into \$1 million unless you make regular contributions.

If you're fairly comfortable with higher-risk investments and looking to boost your potential rate of return, consider moving a greater portion of your portfolio into international equities, special equities or high-yield bonds, says Saint-Laurent.

The chart below gives you a picture of what rate of return you should aim for, depending on your estimated retirement needs, assuming that you contribute \$4,000 a year to an RRSP and that you plan to retire in 25 years.

Compounded return rates:	Amount at retirement
6%	\$ 232,626
8%	\$ 315,818
10%	\$ 432,727
12%	\$ 497,330

Rates of return are for illustration purposes only and are not guaranteed.

A little planning and saving now will go a long way towards your future financial security.

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