How much money do you need to retire in Canada? Is it really $1.7 million?

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While $1.7 million is a big number, it’s possible to retire in Canada on that amount, if you start an RRSP early in life and contribute to it every year.

If you’re just starting out on the long road to saving for retirement, you may have heard about BMO’s recent poll, which found that Canadians say they will need $1.7 million to retire.

Because of inflation, according to [the press release](), that number is 20% higher than it was in 2020, when it was $1.4 million. I wrote my [initial take]() on the poll on my own site, citing the

Canadian Press article in the *Financial Post* as my main source. I wrote that you'd have to put away $42,400 every year in a registered retirement savings plan (RRSP) for 40 years (between the ages of 25 and 65) to reach $1.7 million. That's more than double what even top earners are allowed to contribute. But, as you can see below, if you start saving in an RRSP early enough, you won't need to save nearly that much each year.

How to save $1.7 million for retirement

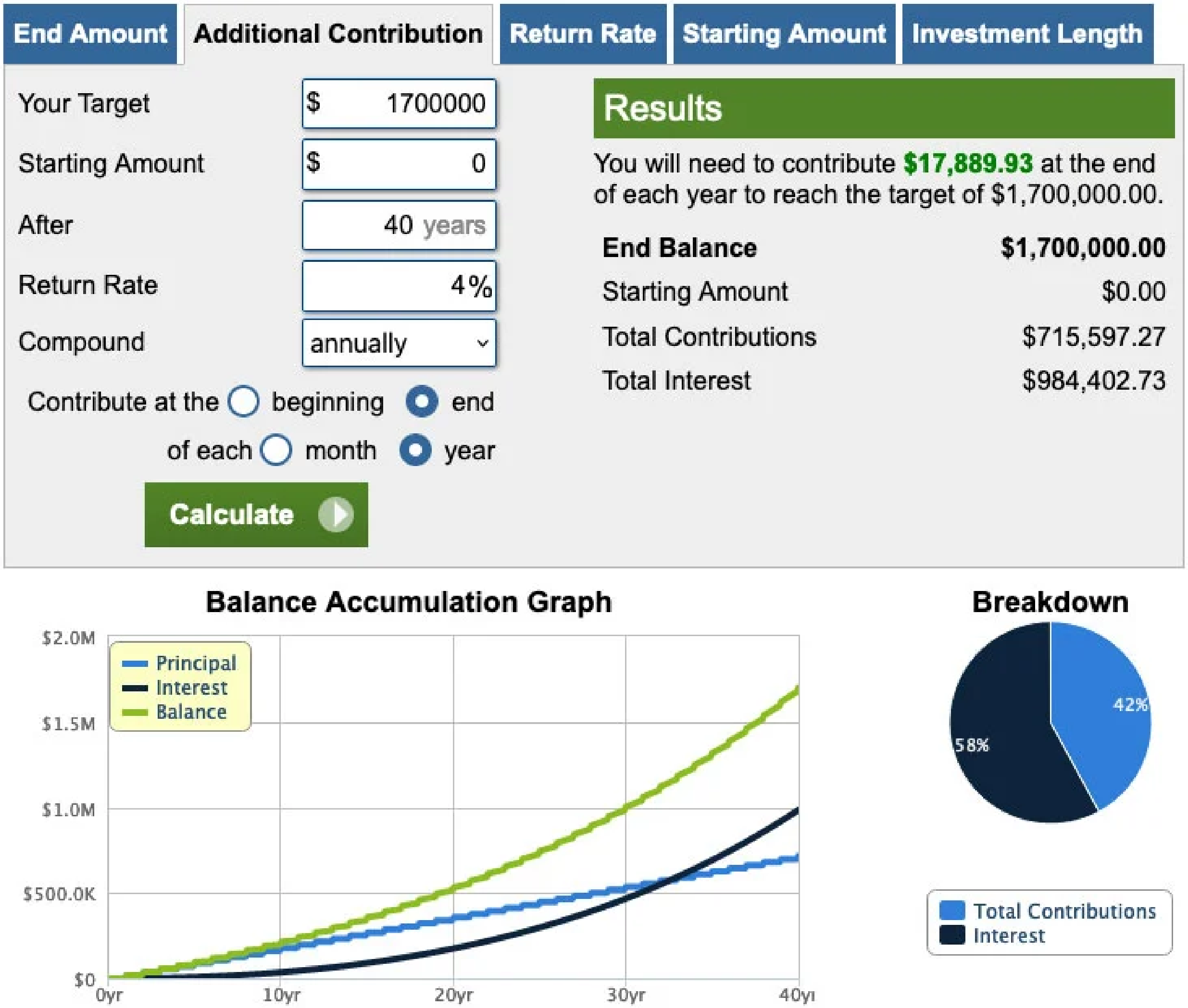
Certainly, I sympathize with the Canadian millennials or gen Zers feeling discouraged by such a huge number. At a 4% rate of return (ROR) a year, $17,000 a year in RRSP contributions for over 40 years should get you to $1.7 million. And, as I wrote on my blog, my quick-and-dirty take assumed a 4% ROR, either from fixed income (such as guaranteed investment certificates, a.k.a. GICs) or Canadian dividend-paying stocks. Those assumptions may seem unduly conservative.

To follow up for MoneySense, I reached out to several experts to put more flesh on my guesstimates. Turns out, I was on the money, according to Erin Allen, vice president of online ETF distribution for BMO ETFs.

"I would agree with your conservative 4% ROR on the investment portfolio, and that would likely be how we would frame it as well," says Allen.

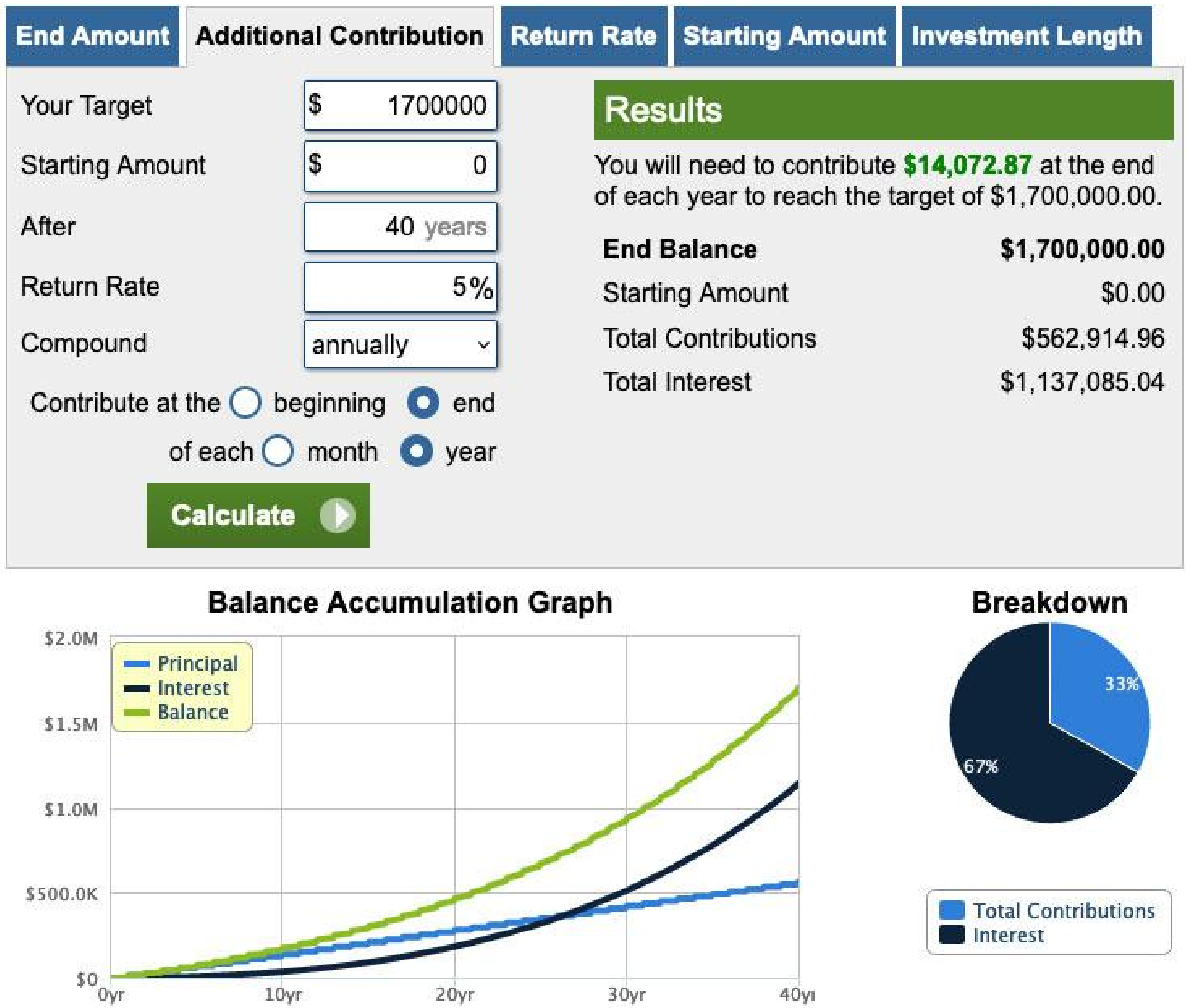
Again, with an annual 4% ROR, $17,000 annual RRSP contributions should get you to $1.7 million over 40 years. But if you invest in your 20s, you won't need to save anywhere close to that much because of compounded investment returns that are tax-deferred inside an RRSP. Because of the added value of time in the invested money, even the modest 4% compounded annual investment returns will, over the course of 40 years, get you to the retiree's promised land.

According to Allen's estimates, using calculator.net, if you can annually earn a conservative 4%, you'd need to contribute $17,900 (rounded) at the end of each year to reach $1.7 million by end of year 40 of investing. That breaks down to $716,000 in total contributions, and another $984,400 in interest payments.



Source: calculator.net

If you end up earning more than 4%, you could contribute even less money to your RRSP. At 5% a year, you'd need to annually contribute only $14,073 (rounded) for 40 years to reach $1.7 million. That breaks down to $562,915 in total contributions and $1,137,085 earned with interest.



Source: [calculator.net]()

Matthew Ardrey, a wealth advisor for TriDelta Financial in Toronto, says his client projections assume 5% return net of fees with 3% inflation. He uses a portfolio of stocks, bonds and alternatives. “I try to lean towards being conservative. When I get the Morningstar numbers from the financial planning program, [it] gives a balanced portfolio a return of 4.55% gross of fees,” he says.

Ardrey also considers how long his clients are planning to be in retirement, their life expectancy, marital status, the types of investment accounts, and how much they want to spend in retirement, as well as desired levels of [Canada Pension Plan]() [(CPP)]() and [Old Age Security (OAS)]() payments. “Finally, when I do my projections, I also do a Monte Carlo stress test to see how things are if less than perfect,” he says.

What's the "Monte Carlo stress test"? That is taking many costly events into account, including worst-case scenarios. Ardrey tests to see how much retirees with $1.7 million could spend assuming a paid-off home and full CPP and OAS for each spouse.

Using that $1.7-million example, he found that a Canadian couple could spend $8,500 per month under ideal conditions with a 4% rate of return. However, the stress test reveals that this scenario has only a 57% chance of success. By lowering spending to $7,000 per month, the probability of success rises to 97%.

A similar story is told when using a 5% return after fees. "Ideal conditions get them to $9,250 per month of spending under ideal conditions," Ardrey says. "And to get to a likely probability of success, they need to reduce their spending to $8,000 per month."

Do all Canadians need to save for retirement: Couples, singles, those with work pensions?

It's not that straightforward. Of course, a lot of variables can come into play.

First, as expected, singles have a tougher time than long-term couples. If you're one-half of a couple, each partner needs to save half the $1.7 million, which is $850,000 each.

Second, those with classic defined benefit (DB) pension plans in place may not need anywhere near $1.7 million saved to retire. If they're inflation-indexed, many government workers and some private-sector employees (often those with unions) may find their DB pensions alone are worth $1 million, if they hang on to their job for 40 years.

Certified Financial Planner Steve Bridge of Money Coaches Canada commented on a Twitter thread about the BMO poll, saying, "a couple with two DB pensions may need $0." On the other hand, Bridge (he's @SteveMoneyCoach on Twitter) says: "Someone with no pension and wanting an expensive retirement lifestyle (say $200,000 a year) and retiring at age 50 would need many millions." Especially if they plan to stop working by age 50.

It's tougher if you're a private-sector worker with a group RRSP or a non-inflation-indexed pension than if you are a public-sector worker with an inflation-linked DB pension backstopped ultimately by taxpayers. In the former case, the $1.7-million estimate is more realistic. But the nest egg doesn't have to only come from RRSPs. There are also tax-free savings accounts (TFSAs), non-registered savings and maybe an employer-sponsored defined contribution plan or group RRSP, if that's accessible to you.

Thirdly, even if you lack an inflation-linked employer pension, all Canadians who have lived and worked in Canada for even a few decades can apply for CPP (as early as age 60) and OAS (as early as 65). Those two benefits are the equivalent of inflation-linked DB pensions. And the longer you delay receiving those benefits (say, ideally to age 70), the less you'll need in your other retirement savings.

For example: When TriDelta's Ardrey included an employer pension annually paying $40,000 indexed to inflation instead of an RRSP for one spouse (leaving the other with an $850,000 RRSP), he says, "the results are similar though slightly better in both cases. The probability of success rises about 10% to 15% in each case, while not moving to 100%."

Nothing moves in a perfect straight line. Also, if these funds weren't in RRSPs, but instead in TFSAs or taxable accounts, the numbers all change.

"That said, the RRSP does still have real value for those who have high earnings today and low in retirement," says Ardrey.

More on BMO's retirement poll

Here's what Canada's pre-eminent retirement expert, retired actuary Malcolm Hamilton, says about the BMO poll: "My views on the amounts Canadians need to save for retirement have not changed. Couples who buy and pay for their homes and raise two children will find that, once the children leave home and their debts are paid off, can live comfortably on about 50% of their employment income—remembering that if you cut your income in half, your taxes reduce by much more than 50%. CPP and OAS will provide most of what the typical couple needs. If people can afford to save some additional money, they should do so, but no one should worry about saving less than financial planners or financial institutions want them to save."

Throughout his working life, Hamilton says, he was told that baby boomers were not saving enough and would never be able to retire. "I disagreed," he says now. "Most boomers have now retired voluntarily at or before age 65, much earlier for government employees, and they are enjoying an active retirement."

Private wealth advisor Aaron Hector, Certified Financial Planner and Registered Financial Planner (RFP) with Calgary-based CWB Wealth, doesn't put much credence in target figures like $1.7 million. So he declines to say if the number is a reasonable average. "That was a figure based on what 1,500 online respondents indicated they thought they would need; however, if I've learned anything as a financial planner, it is that no single individual or couple is representative of the average. Rather, each individual situation is specific to their facts."

Hector says $1.7 million to one person will mean something very different for another. "Perhaps one person has $1.7 million inside an RRSP, and another has $1.7 million inside a combination of non-registered and TFSA accounts. On an after-tax basis, the money outside the RRSP is worth a lot more. These are not 'apples to apples' comparisons."

Hector says he understands the natural desire to compare financial situations, but he stresses that "there is no 'one size fits all' [solution] when it comes to financial planning… The only way to determine if you are really on the right track for your retirement is to focus on your own unique circumstances. Then start planning for that."

How much do you need to retire if you don't live in Vancouver or Toronto

Of course how much money you need to retire is dependent upon where you live or end up living.

Kyle Prevost, the columnist behind MoneySense's weekly "Making sense of the markets this week," suggests $1.7 million is "probably more than most people need, especially if you own your home…. Most upper-middle-class Canadians—especially those with children who've moved out, [and own] their home—are significantly overestimating what they will spend, and how little tax they will pay in retirement."

However, regional differences should be considered, says Prevost. If you live in Manitoba and have $1.7 million in savings, "you'd definitely be in the top 1% of retirees… Even in Calgary, Montreal, Edmonton, Halifax, maybe Ottawa and Victoria, that's likely more than you'd need for a comfortable retirement as a couple, assuming decent CPP and maximum OAS." However, those in Vancouver or Toronto who don't own their own home may "need a fair amount more than $1.7 million."

So, do you need $1.7 million to retire? That's up to you and, if you have one, your planner.