Retirement Investing

A Guide to Securing Your Financial Future

May 2025

This work is released into the public domain under the Creative Commons Zero (CC0) license. You are free to use, share, and modify this document without any restrictions. For more information about CC0, visit https://creativecommons.org/publicdomain/zero/1.0/.

Contents

1 Introduction

Retirement investing is about building a nest egg that will support you financially after you stop working. This guide provides strategies to help you save, invest, and plan for a secure retirement, whether you're decades away or nearing retirement age.

2 Determine Your Retirement Needs

2.1 Calculate Your Retirement Goal

Estimate how much you'll need annually in retirement. A common rule is to aim for 70–80% of your pre-retirement income. For example, if you earn $80,000 per year, you might need $56,000–$64,000 annually in retirement. Multiply this by 25 (based on the 4% withdrawal rule) to get a target nest egg of $1.4 million–$1.6 million.

2.2 Factor in Inflation and Lifespan

Account for inflation (e.g., 2–3% annually) and a retirement lifespan of 20–30 years. If you retire at 65, plan to live until at least 90. Inflation means $50,000 today might be worth only $30,000 in 20 years, so your investments need to grow to keep pace.

3 Leverage Tax-Advantaged Accounts

3.1 Contribute to Employer Plans

Maximize contributions to employer-sponsored plans like a 401(k) in the U.S. or an RRSP in Canada. For example, in 2025, the 401(k) contribution limit is approximately $23,000 per year. Many employers match contributions, effectively doubling your savings.

3.2 Use IRAs or TFSAs

Contribute to individual retirement accounts (IRAs) or tax-free savings accounts (TFSAs). For instance, a Roth IRA allows tax-free withdrawals in retirement, while a TFSA in Canada offers tax-free growth. Aim to max out these accounts annually (e.g., $7,000 for an IRA in 2025).

4 Build a Diversified Retirement Portfolio

4.1 Balance Growth and Stability

In your 20s and 30s, focus on growth with a portfolio like:

- 70% stocks (e.g., S&P 500 ETF)

- 20% bonds
- 10% real estate (e.g., REITs)

As you near retirement, shift to a more conservative allocation, such as:

- 40% stocks
- 50% bonds
- 10% cash

4.2 Invest in Low-Cost Funds

Choose low-cost index funds or ETFs to minimize fees. For example, an S&P 500 ETF with a 0.03% expense ratio costs only $3 annually per $10,000 invested, preserving your returns over decades.

5 Plan for Withdrawals in Retirement

5.1 Follow the 4% Rule

The 4% rule suggests withdrawing 4% of your portfolio annually in retirement, adjusted for inflation, to make your savings last 30 years. For a $1.5 million portfolio, this means withdrawing $60,000 in the first year.

5.2 Create Income Streams

Supplement your portfolio with other income sources, such as:

- Social Security or government pensions
- Rental income from real estate
- Dividend-paying stocks (e.g., a 3% dividend yield on a $500,000 stock portfolio generates $15,000 annually)

6 Manage Risks

6.1 Protect Against Market Downturns

Keep 1–2 years of expenses in cash or bonds to avoid selling investments during a market crash. For example, if you need $60,000 annually, hold $60,000–$120,000 in stable assets.

6.2 Plan for Healthcare Costs

Healthcare costs can be significant in retirement. In the U.S., a couple retiring at 65 might need $300,000 for medical expenses, excluding long-term care. Consider health savings accounts (HSAs) to save tax-free for medical costs.

7 Stay Disciplined and Adjust

7.1 Automate Savings

Set up automatic contributions to your retirement accounts to ensure consistency. For example, contribute $500 monthly to an IRA to reach the annual limit over time.

7.2 Rebalance Annually

Review and rebalance your portfolio yearly to maintain your target allocation. If stocks grow to 80% of your portfolio due to a market rally, sell some stocks and buy bonds to return to your desired 60/40 split.

8 Resources for Retirement Planning

- Books: "The Bogleheads' Guide to Retirement Planning" by Taylor Larimore, "Retirement Planning Guidebook" by Wade Pfau.
- Websites: Vanguard (https://www.vanguard.com), Fidelity (https://www.fidelity.com).
- Tools: Use retirement calculators on sites like Bankrate (https://www.bankrate.com/retirement/calculators).

9 Conclusion

Retirement investing requires a long-term mindset, disciplined saving, and a balanced approach to growth and stability. Start early, leverage tax-advantaged accounts, and adjust your strategy as you age. With careful planning, you can build a secure financial future for your retirement years.

Disclaimer

This document is provided for educational purposes only and is not intended as financial, legal, or investment advice. The information contained herein is general in nature and does not consider your individual financial situation, goals, or risk tolerance. Before making any investment decisions, consult a qualified financial advisor or professional to ensure the strategies suit your specific circumstances. The author and contributors assume no liability for any losses or damages arising from the use of this information.