How Young Canadian Families Can Build a $1,000,000 TFSA Retirement Fund

Description

Planning for retirement is becoming more important at an earlier age.

Canadians can no longer assume they will walk out of their college or university program and straight into a full-time job for life that provides generous pension benefits.

Contract work is more common, defined-contribution plans are replacing the traditional defined-benefit programs, and people are approaching their careers in different ways. Many young people are choosing to be self-employed and switching industries or professions is common practice today.

All of these changes mean Canadians have to shoulder a larger part of their retirement planning. Fortunately, the arrival of the TFSA has provided a great savings vehicle for the golden years. Canadian residents who were at least 18 years old in 2009 now have up to $63,500 in TFSA contribution room. That's more than adequate to launch a solid retirement fund.

With time on their side, young Canadians can take advantage of the power of compounding through holdings in quality dividend-growth stocks. Inside the TFSA, the full value of the distributions can be used to purchase additional shares, and over time, the process slowly grows the portfolio. When capital gains are added to the mix, a relatively modest initial investment can become a substantial fund in two or three decades.

Let's take a look at two stocks that have proven to be top picks over the past 20 years.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

CN is a key player in the operation of the North American economy, with thousands of kilometres of tracks connecting ports on the Pacific and Atlantic coasts of Canada and the Gulf of Mexico in the United States. This unique network gives CN a strategic advantage, and that situation is not likely to change.

The company is investing nearly $4 billion in 2019 to ensure it can meet rising demand for its services and continues to drive efficiency into the operations. New locomotives, additional rail cars, and infrastructure upgrades are all part of the capital program.

Despite the large investments, CN still has ample cash left over to share with investors. The company just raised the dividend by 18% for 2019 and is buying back up to 22 million shares under the current repurchase program.

A $10,000 investment in CN two decades ago would be worth more than $250,000 today with the dividends reinvested.

TD Bank (TSX:TD)(NYSE:TD)

TD generated adjusted earnings of about $12 billion for fiscal 2018. That's right; the big, green machine brings in about $1 billion in profits per month!

The company has spent billions of dollars on acquisitions in the United States to build a significant operation that has branches running from Maine right down to Florida. The American division contributes more than 30% of the bank's profits and provides investors with a great way to get exposure to the U.S. economy while offering some protection against an economic downturn in Canada.

TD's compound annual dividend-growth rate over the past 20 years is about 11% and ongoing increases should be in line with expected earnings growth of 7-10% per year.

The current payout provides a yield of 4%.

A $10,000 investment in TD just 20 years ago would be worth about $90,000 today with the dividends invested.

The bottom line

A couple with a $60,000 portfolio equally split between CN and TD a mere 20 years ago would now have more than $1 million in the fund if they invested all the distribution in new shares. There is no guarantee the two companies will deliver the same returns in the next two decades, but the strategy of owning top-quality dividend stocks is a proven one for building wealth.

Young Canadians have a lot on their plates these days, but a comfortable retirement is well within reach.

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