How to Reach Financial Freedom at 55

Description

Young Canadians are facing financial challenges that are somewhat unique to their generation.

Student debt, extreme house prices, and uncertainty around job security are pretty much the norm these days. That wasn't necessarily the case for the boomers or even the older members of GenX.

For people who actually land full-time jobs with benefits shortly after college or university, the odds of getting a juicy pension package as part of the deal are becoming increasingly slim and the days of retiring at 55 with a full pension are essentially gone.

However, millennials have a savings advantage that wasn't available to their parents. It's called the Tax-Free Savings Account. The tool came into existence in 2009 and Canadians now have as much as $63,500 in TFSA contribution room, with the annual increase currently set at $6,000.

Using the TFSA to hold dividend stocks is one way to supercharge savings and potentially hit the goal of retiring at 55, or even younger.

The secret lies in making consistent contributions while investing the distributions in new shares, letting the power of compounding do all the heavy lifting to grow the portfolio.

Let's take a look at two stocks that are good examples of how the process works.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure industry. The company has oil, gas, and gas liquids transportation assets, as well as natural gas distribution businesses.

Big new developments are difficult to get approved these days, but Enbridge is large enough that it can drive growth through smaller tuck-in projects throughout its infrastructure and has the financial firepower to make strategic acquisitions.

The company has a $16 billion development program on the go and is targeting distributive cash flow growth of 5-7% beyond 2020. The stock currently provides a dividend yield of 6.3%.

A $10,000 investment in Enbridge 20 years ago would be worth about $120,000 today with the dividends reinvested.

Bank of Montreal

Bank of Montreal is Canada's oldest bank and has paid a dividend every year since 1829.

That's an impressive record when you think about all the financial disasters that have occurred in the past 100 years. Bank of Montreal has a balanced revenue stream coming from a number of banking segments including wealth management, capital markets, and retail banking.

The company's strong presence in the United States dates back to the early 1980s and provides a nice hedge against tough times in Canada.

The dividend grows at a steady rate and offers a 4.2% yield.

A $10,000 investment in Bank of Montreal 20 years ago would be worth about $80,000 today with the dividends reinvested.

The bottom line

Enbridge and Bank of Montreal are just two examples of a handful of top **TSX Index** dividend stocks that have generated similar or better returns.

A 35-year-old couple that had $100,000 invested in these names two decades ago would be sitting on roughly $1 million today if they used the dividends to buy new shares.

That's enough for most people to call it quits at 55 and live a comfortable retirement.

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