3 Ways to Retire Rich

Description

Retiring wealthy might seem like an unrealizable dream, but it is possible.

In fact, Canadians have a number of tools available to build themselves a substantial pile of cash to enjoy in the golden years.

Let’s take a look at three ways you can create your own pension portfolio and potentially retire rich.

Start a business

The evolution of technology has made it easy for people to start a business.

Companies such as **Shopify** and **Lightspeed POS**, for example, enable entrepreneurs to set up websites, process payments, and manage inventory using affordable and scalable cloud-based products and services that would have historically cost a fortune to create.

The internet alone has opened the door to an entire planet of potential customers.

Funding has always been a challenge for startups, but that is also changing. The government-owned Business Development Bank of Canada (BDC) has a mandate to help Canadian entrepreneurs get their businesses off the ground as well as provide them with loans to grow. In addition, the bank offers consulting services to help business owners succeed.

Crowdfunding is another way to raise cash. People who believe in your idea can pitch in a few dollars to help you get up and running.

Owning a business is hard work. It takes up a significant amount of time and requires a true passion for the project, but the payoffs could be worth the trouble. The business can start as a side project and expand into a full-time job. When you decide to sell, the government also rewards you for the effort.

How?

As of 2019, the government gives Canadians a lifetime capital gains exemption (LCGE) of $866,912 for the disposition of qualifying small business corporation shares. In short, if you create a business, incorporate, build the firm up over a number of years, and sell the entity to someone else or to another company, you don't pay capital gains tax on the proceeds up to the LCGE amount.

A tax-free payout of $867,000 would be a nice retirement fund.

Build a TFSA pension

The Tax-Free Savings Account (TFSA) came into effect in 2009, and the contribution limit now stands at $63,500 per person. That is expected to grow by $6,000 for 2020 and continue on that trend every year afterwards, with adjustments for inflation in $500 increments.

One way to create your own pension fund is to buy dividend stocks inside the TFSA and use the distributions to purchase additional shares. This takes advantage of a compounding process that is like a snowball that gets bigger and bigger the longer it rolls down the hill.

As an example, a one-time $25,000 investment in **Canadian National Railway** just 20 years ago would be worth more than $500,000 today with the dividends reinvested.

The great thing about the TFSA is that all the gains are yours to keep.

Own rental properties

Being a landlord isn't easy and most people should probably avoid the venture. However, those who have a handyman gift and an eye for the right type of property and tenant can make the investment work.

House prices in major Canadian cities have increased to the point where it is difficult for new buyers to get in the game. Secondary markets, however, still have affordable properties and can command enough rent to cover the expenses and pay the mortgage.

You have to be prepared for some difficult times and be willing to stick it out for 25 years, but owning a rental property can still be one way to create a fund for retirement.

The best path forward

Creating your own company, being a landlord, and investing in quality dividend stocks are all ways to create wealth for the golden years. Some people manage to do all three, while others stick to just one.

Time and interests will determine the route to take.

If you don’t have a generous company pension, it is at least good to know that alternatives exist to help you retire in comfort.

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aswalker