TFSA Pension: How to Retire Wealthy

Description

Canadian investors are starting to figure out that using the TFSA is a good way to enhance their retirement savings.

Any interest, dividends, or capital gains generated inside the TFSA are 100% yours to keep. This is different from the RRSP, which gives you a reduction in taxable income at the time of the contribution, but the funds are taxed when taken out down the road.

CPP and RRIF payments are also taxed. If you receive too much from these taxable sources, you might lose some, or all, of your OAS.

TFSA withdrawals, however, are not taxed and do not count toward your earned income, which is used to determine potential OAS claw backs.

Ideally, investors will max out both their RRSP and TFSA contribution limits each year to get the full advantages of both products. Younger investors, however, might want to focus on the TFSA first, and save the RRSP room from when they are earning more money later in their careers.

Let’s take a look at two stocks that can help a Canadian couple retire rich.

CN

Canadian National Railway Company (TSX:CNR) (NYSE:CNI) is the only rail operator in North America with routes connecting three coasts. This is an important competitive advantage that should remain in place for decades.

The company does a good job of using profits to invest in new locomotives, rail cars, and infrastructure, while still giving shareholders solid dividend increases each year.

CN raised the payout by 18% in 2019 with a compound annual rate of dividend growth of roughly 16%.

The stock has made some investors quite wealthy. In fact, a $5,000 investment in CN just 20 years ago would be worth $100,000 today with the dividends reinvested.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) just raised its dividend by 6% and is targeting ongoing annual increases of about the same amount through 2024.

That's pretty good guidance in a global economy that appears somewhat wobbly today.

The secret lies in the company's $50 billion in utility assets that primarily operate in regulated markets. Cash flow is therefore quite predictable and people will always need to turn on the lights and heat their homes regardless of what is going on in the broader financial markets.

Fortis is spending $18.3 billion on capital projects that will drive the rate base higher and support the dividend hikes. The company has increased the payout for 46 years straight, so investors should feel comfortable with the outlook.

A $5,000 investment in Fortis 20 years ago would be worth $65,000 right now with the dividends reinvested.

The bottom line

A couple who each split a $5,000 investment between these two stocks two decades ago would have $165,000 today. A $100,000 portfolio would be worth $1.65 million!

There is no guarantee CN and Fortis will generate the same returns in the next 20 years, but the strategy of owning dividend growth stocks and using the distributions to buy new shares is a proven one.

The **TSX Index** has many top stocks that could generate similar results and some appear oversold today.

CATEGORY

1. Investing

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2. NYSE:FTS (Fortis Inc.)
3. TSX:CNR (Canadian National Railway Company)
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