TFSA Investors: Why $1,000,000 May Not Be Enough for Your Retirement

Description

One of the biggest challenges for investors that are planning for retirement is in determining how much they will need to have saved up so that they can enjoy a certain lifestyle in their old age. Not only is that lifestyle a significant consideration, but so is an individual's life expectancy.

While it may be a more morbid consideration, it's one that shouldn't be overlooked, as it could make a material impact on whether your target amount is sufficient.

Let's assume that $1,000,000 is your goal to have in your TFSA by retirement. If you expect to retire at 65 and live for another 20 years, then you might budget to withdraw, on average, about $5ok every year, and possibly a bit more thanks to the interest you'll probably earn on your savings along the way.

However, things could get complicated if you aim to retire earlier than that, perhaps at 55. If you still want to plan on the assumption that you'll live to be at least 85, then now your retirement has become 30 years, not 20.

Now, your annual withdrawals will be closer to around $33,000; that's a one-third reduction in the amount you'll be taking out every year.

Whether that will be enough along with your other pension income during those years is a question that only you can answer, and at the very least, it can be a variable one depending on what changes occur between now and retirement.

Although getting to $1,000,000 is a good goal, unfortunately, it still might not be enough to guarantee that you'll be earning enough to ensure that you can live the lifestyle that you want.

What can investors do to mitigate these risks?

While many people may be tempted to continue working at least part-time during their retirement to help bridge any gaps, if you've got a significant amount of savings built up, then you may want to just consider living off the dividend income.

After all, if you've got $1,000,000 saved up in your TFSA, rather than moving that money out of it, you can invest it into a top bank stock like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), which today pays you about 5.2% every year. Or if you already have the funds there, you can simply leave them.

At CIBC's current dividend rate, you'd be making more than $52,000 a year in tax-free dividend income. While you would benefit from the company's growing dividend, even at the status quo you could help ensure that you won't have to worry about how long you live, assuming of course that $52k in tax-free income would be sufficient.

Instead, as long as the dividend remains safe, you'll continue getting paid regardless of how long you'll live. That's why investing in a bank stock with a solid yield can be a great way to make your retirement less stressful.

If, as you get older, you want to pull some of those funds out, you'll still have the flexibility to do so. After all, holding such a large investment for over 20 years could result in your TFSA actually growing during your retirement as you continue to earn dividend income.

It could give you the best of both worlds. CIBC stock has been one of the safest investments on the **TSX.** And while its five-year returns of around 9% may leave something to be desired from investors, its dividend payments have grown by 44% during that time.

For investors looking for some added stability during their retirement years, CIBC stock could play an integral role in accomplishing that. With it being a top bank stock that pays a fairly high dividend, it's a great option for investors to put their savings into both now and in their retirement years.

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