Retire Early: How to Build a $1 Million TFSA Pension Fund in 20 Years

Description

Young investors might think that early retirement is an unrealizable dream.

School debt, mortgage payments, and child care can take a big chunk out of disposable income. Then there are unexpected expenses that come up, including car repairs and weddings.

Despite the challenges, many Canadians still manage to set some cash aside for their golden years. Those who find themselves in higher income brackets tend to use their RRSP contribution allowances first to reduce their taxable income and then direct extra funds into their TFSA.

Younger investors at the start of their careers might decide to contribute to the TFSA today and save the RRSP room for down the road when the tax savings are larger.

The TFSA is also attractive for people who are still getting settled, as the funds are always available in the event you need to tap them for an emergency. This isn't the goal, but it is nice to have the safety net.

How do you retire early?

Investing in quality dividend stocks has proven to be a good way to build wealth. The distributions can be used to buy new shares, setting off a powerful compounding process that sees each new share generate additional dividends that in turn buy even more shares.

Over the course of 20 or 30 years, a modest initial investment can become a large nest egg with very little work on the part of the investor.

In 2019, any Canadian resident who was at least 18 years old in 2009 has as much as $63,500 in TFSA contribution room. Just $500 per month would cover the current annual contribution increase of $6,000.

Let’s take a look at one top Canadian dividend stocks to see why it has been a great pick over the years and should continue to be attractive for a buy-and-hold retirement fund.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) plays an important role in the operation of the Canadian and U.S. economies, with rail lines connecting ports on both the Pacific and Atlantic sides of Canada as well as the Gulf of Mexico.

It is the only railway that has this unique and extensive network, providing CN with an important competitive advantage when it comes to securing transport deals with both domestic and international companies.

CN transports forestry products, coal, crude oil, grain, cars, finished goods, and fertilizer. As economic conditions shift and currency markets fluctuate, the different segments can experience moves in one direction or the other, but a drop in revenue in one group is normally offset by gains in the other business lines. As an example, CN’s latest report indicated weakness in the forestry segment but a strong increase in oil shipments.

The company is very profitable and generates adequate cash flow to cover the hefty investments needed to keep the business competitive with other railroads on some overlapping routes and trucking companies. CN is investing nearly $4 billion in 2019 on network upgrades, new technology, additional locomotives, and rail cars.

Excess cash is used to pay dividends and buy back shares. CN is one of the best dividend-growth stocks in the TSX Index with a compound annual rate of dividend increases of about 16% over the past 20 years. The board raised the payout by 18% in 2019.

Long-term investors have done well with the stock. A couple who each made a single $25,000 investment in CN just two decades ago would be sitting on more than $1 million today with the dividends reinvested.

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