TFSA Pension: How Families Can Build a $1 Million Retirement Fund in the Gig Economy

Description

A recent survey indicated that 40% of Canadian millennials have worked in jobs that are considered part of the gig economy.

The definition of the gig economy varies depending on who you talk to, but it essentially means jobs that are done on a contract basis, meaning you get paid for the work but are not provided with any benefits.

In recent years, this type of work has ballooned. Part of the reason lies with the ubiquitous nature of the internet and advancements in technology that enable companies to access freelance talent around the world. Another driver is the fact that younger people appear to be more comfortable with the flexibility that comes with this kind of work.

While some people prefer to be contract workers, others do it out of necessity. Getting a full-time job at a company is harder than it used to be, especially for new grads.

Regardless of the reason, it is becoming more common for households to have at least one breadwinner without a company pension.

As a result, more Canadian families are building self-directed pension plans. This can involve making RRSP contributions as well as setting up a TFSA retirement fund.

The TFSA provides more flexibility and might be the better option for younger Canadians who will likely be in much higher tax brackets in the coming years. In 2019, the TFSA cumulative contribution limit is as high as $63,500 per person.

Investing in dividend stocks and using the distributions to buy new shares has proven to be a winning buy-and-hold strategy for self-directed investors. The best companies to own tend to be ones that have demonstrated a solid track record of dividend growth supported by rising revenue.

Let’s take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see why it might be a good pick to get your TFSA retirement fund started.

Earnings

Royal Bank averages more than $1 billion in profits every month. Yes, that’s not a typo, it’s the truth.

The company is a giant in the Canadian and global financial industries, with strong domestic operations, as well as a presence in more than 30 international locations.

Canada and the U.S. account for the bulk of the revenue and profits, driven by strong personal banking, commercial banking, wealth management, insurance, capital markets, and investor and treasury services divisions.

Royal Bank’s immense size and strong financial position enable it to make the necessary investments to ensure it remains competitive in a changing industry. Some pundits point to non-bank entrants into mobile payments as a threat to Royal Bank and its peers. There is certainly going to be disruption, but Royal Bank should continue to thrive.

The company raised its dividend two times in fiscal 2019 and ongoing annual increases should be in line with anticipated earnings growth of 7% to 10% on a per share basis.

The current dividend provides a yield of 3.9%.

Returns?

A $50,000 investment in Royal Bank 20 years ago would be worth $665,000 today with the dividends reinvested. A couple who owned $100,000 of Royal Bank stock would have more than $1.3 million!

The bottom line

It takes discipline and patience, but workers in the gig economy can still put aside ample cash to cover a comfortable retirement.

A balanced portfolio is always recommended and the TSX Index is home to many stocks that have generated similar returns.

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