Retirement Dream: How to Turn a $25,000 TFSA Into $575,000 in 2 Decades

Description

The dream of settling into a comfortable retirement after a 30- to 40-year career is still alive, but young Canadians are facing a much different financial world than the one that sat in front of their parents or grandparents at the same age.

Work has changed dramatically with part-time and contract employment becoming much more common. The good, old days of walking out of school and straight into a full-time job with a generous defined-benefit (DB) pension are essentially gone. Any full-time position is harder to find, and most pension offerings, when they exist, are now defined-contribution (DC) plans.

In a DC plan, the employees have some of their salary directed to the fund, and the employer normally kicks in a percentage to match the worker's contribution. The amount of money the employee gets in retirement depends on how large the fund grows. This is different from the DB plan, where the company guarantees a set pension payout until you die.

Finally, most people who are currently retired or close to the end of their careers, own a home that serves as a financial safety net. The house can be sold to fund a move to a retirement home, or retirees can downsize and use the difference to help cover living expenses.

Millennials are less likely to be in that situation. House prices have risen far faster than income levels in the past 15 years, and the situation isn't expected to get much better. As a result, many people will be life-long renters, and those who manage to put together a down payment might be carrying mortgages into their retirement years.

So, how can you save for retirement?

The RRSP is still a useful tool, especially for individuals in higher-income brackets.

Those who are renting should consider directing the funds they would otherwise put on a mortgage into their RRSP. In the event you decide to buy a house, the RRSP has provisions that allow you to borrow funds from the plan to make a down payment.

Another option is to take advantage of the growing TFSA contribution limits.

Which stocks should you buy in your RRSP or TFSA?

The best companies tend to be industry leaders with wide moats and long track records of rising dividends supported by steady revenue growth.

Lat's take a look at **Canadian National Railway** (TSX:CNR)(NYSE:CNI) to see why it might be a solid choice to start the fund.

CN is the only rail operator in North America with tracks that connect to ports on three coasts. This is an important advantage for the company and is one that should remain in place for decades.

The business is an essential part of the Canadian and U.S. economies. This became very clear in late 2019 when a one-week strike at CN risked triggering chaos for a wide range of industries. At one point, it looked like the government would have to intervene.

Fortunately, CN and its employees sorted things out, but the strike was a good lesson for investors and business owners.

CN generates healthy profits and has ample cash flow to invest in network upgrades and new equipment. It also has enough cash left over to give investors a nice dividend hike every year. In fact, the payout has increased by a compound annual rate of about 16% over the past 20 years.

Returns?

A $25,000 investment in CN stock just 20 years ago would be worth $575,000 today with the dividends reinvested.

There is no guarantee CN will deliver the same results over the next 20 years, but the stock remains attractive and deserves to be an anchor position in a balanced portfolio.

The TSX Index is home to many top picks and the strategy of buying quality dividend stocks and investing the distributions in new shares is a proven one.

Fortunately, Canadians can still put away some serious cash to enjoy a comfortable retirement.

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