Young Investors: How to Build a TFSA Portfolio That Will Pay You $100K a Year on Retirement

Description

If you are a young investor looking for a way to generate real, sustainable income in retirement, this article is for you.

As most investors know, it's possible to generate meaningful tax-free income for retirement using Canada's Tax-Free Savings Account (TFSA). I'm going to point out a few time-tested tips that can assist you to build a portfolio that will provide that annual income and allow you to retire happy.

For most folks out there, $100K a year is a reasonable amount to live on, so I'll set that as my target for this example. I'm going to discuss a few methodologies investors should consider to hit this mark.

Time is your friend

With the annual TFSA contribution limit varying depending on which federal political party is in power, it can be hard to know just how much we are able to contribute to the TFSA each year. Assuming we have been able to maximize the contribution room each year to 2019, we would have nearly $65K in capital invested. Let's take the 10-year average of roughly $6K per year, and assume that we are able to contribute that much each year. Making contributions each year is important for building the base required to generate enough income.

It may take a few decades to achieve a nest egg that can provide $100K a year in retirement. For young investors and those who are willing to build and wait, the TFSA program will really only shine after years and years of compounding, particularly when it comes to dividend growth rates.

Dividend growth rates matter more than yield

The key to building a powerful income-generating investment fund is to pick stocks in companies with good dividends, but also good, sustainable dividend growth rates. They should have dividend growth rates above the industry average, as well as a proven track record of growing dividends in all economic environments. Companies like **Fortis Inc.**, which has grown its dividend for over four decades, are a great place to start.

The degree to which these companies increase their dividend yield annually is also important, as is the stability of the increases over time. Picking a company with a two- or three-decade track record of raising its dividend by 8% a year is probably a better bet than a company that raised its dividend one year by 15% and the next year by 1% (even though the average is the same).

Bottom line

With approximately three decades to watch their dividend income grow, investors will be able to pull in a little more than $100K a year from their TFSA by 2048 – so long as they make the maximum annual contributions and invest each year in companies that have a 5% dividend yield (this will vary, of course) at the time of investment **and** raise their dividends each year by 9%.

I encourage investors to check the Motley Fool for excellent recommendations for such companies, and to do their research to create real, sustainable, long-term income in your TFSA!

Stay Foolish, my friends.

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