RRSP 101: How to Grow $10,000 Into $365,000 in 25 Years

Description

Canadians are increasingly reliant on self-directed investing as a means of building a pension portfolio.

The reason lies in changes to the way companies employ workers and the benefits they provide. In the past, college and university grads could reasonably expect to find full-time work right after graduation.

Businesses were willing to take on the costs of training people to work at their companies and didn't worry too much about turnover.

Those full-time jobs often came with decent benefits packages, including a defined benefit (DB) pension plan. Under a DB pension, the payouts at retirement are guaranteed by the employer.

In the era of falling interest rates, it's become harder for companies to generate enough returns on funds to meet pension obligations. As a result, most companies that provide pension benefits now offer a defined contribution (DC) plan. In this case, the risk is shifted to the employee, as the payouts are determined by the performance of the fund.

In more recent times, the emergence of the gig economy means a significant part of the workforce is now effectively self-employed or on permanent contract work, meaning they have no company pension. While this offers a certain degree of flexibility, it shifts 100% of retirement planning to the individual.

Fortunately, Canadians have other savings options.

The RRSP remains a very popular saving tool for building retirement funds. The contributions can be used to reduce taxable income for the designated tax year, keeping more money in your hands today.

The investments can grow tax-free inside the RRSP over the years and the funds are only taxed when withdrawn. Ideally, this is at a lower tax rate than when you made the contributions.

One popular strategy for building serious wealth inside the RRSP portfolio is to own quality dividend stocks and invest the distributions in new shares. This takes advantage of a powerful compounding process that can turn a relatively small initial investment into a large pile of cash for retirement.

Let’s take a look at one stock that has delivered great returns over the years and should be a solid pick to start a diversified pension fund.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure sector with pipelines that transport a significant amount of the oil and natural gas produced in Canada and the United States.

The company also has natural gas utility businesses and a growing renewable energy division with wind, solar, geothermal, and hydroelectric assets.

Enbridge experienced a strategy transition in the past couple of years that saw the company monetize about $8 billion in non-core assets and streamline the business structure by bringing four former subsidiaries under the umbrella of the parent company.

The efforts strengthened the balance sheet and have refocused much of the business on regulated assets. This is a good thing for dividend investors, as it means cash flow should be predictable.

Enbridge raised the dividend by nearly 10% for 2020 and investors should see the payout continue to increase in line with anticipated annual growth in distributable cash flow of 5-7%. The current dividend provides a yield of 6%.

A $10,000 investment in Enbridge 25 years ago would be worth $365,000 today with the dividends reinvested.

The bottom line

Owning reliable dividend stocks is a proven strategy for building retirement wealth. There is no guarantee Enbridge will deliver the same returns over the next 25 years, but the stock remains an attractive pick for a balanced portfolio.

The **TSX Index** is home to many top dividend stocks that have generated significant gains for investors and continue to be solid choices for a dividend-focused RRSP.

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