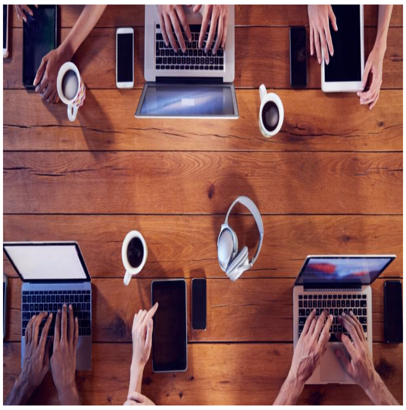

Millennials: How Your TFSA Can Make You $100,000 a Year (Tax-Free) by the Time You're 65!

Description

Times are tough for millennials, with the promiscuous labour force, those sizeable CPP bills at tax time, and the fear that the "millennial pension" may wither away by the time they're eligible to receive payments in 30 years or so.

Despite many financial uncertainties facing today's young people, there is a glimmer of hope with the Tax-Free Savings Account (TFSA). Pensions are a taxable income stream, but any passive income generated within a TFSA is free from the insidious effects of taxation — assuming that investors play by the rules and don't conduct business trading activities or overcontribute.

As far-fetched as this may sound, the TFSA has the potential to produce far more income in retirement than the OAS and CPP pension combined for those who are years, if not decades, away from their 60th birthday.

So, if you're not a fan of taxes, contributing and investing in risky assets (as opposed to risk-free assets like fixed-income securities, GICs, cash, gold, and all the sort) with your TFSA is a must if you're to maximize your tax-free advantage!

Many of today's retirees likely have TFSA funds that could finance an income stream that's comparable in size to the average pension payment.

For younger investors who are nowhere close to retiring, however, one could grow a TFSA such that it can produce enough income such that one won't have the need or desire to receive CPP pension payments until they're 70.

In a prior piece, I outlined just how quickly a TFSA could grow through the difficult-to-fathom effects of tax-free compounding over the long-term, using the millennial cohort as an example, a 9% expected total annual return on invested TFSA proceeds and full annual TFSA contributions.

"Most millennials who stick with the basics will hit the magic $2 million milestone after 33 years,officially labelling most millennials as TFSA multi-millionaires well before their 65th birthdays." I said.

That's the real power of long-term compounding in a nutshell. The most staggering part is that I used conservative estimates and didn't account for TFSA limit raises or market-beating returns, which, as you may know, many Foolish investors are more than capable of achieving!

With a $2 million TFSA massed by the time you're 65 (in around three decades from now), you can earn $100,000 per year tax-free if you average a 5% yield.

One of the bluest blue-chip stocks like **BCE** would be enough to finance a retirement income stream when you're ready to hang the skates up at 65, more than enough to allow you to delay CPP payments by another five years.

So, even if there's little to nothing left in the CPP fund after Baby Boomers have had their share, disciplined millennials who properly leverage their TFSA over the decades will still be financially independent without having to worry about how strong that social security safety net will be.

The TFSA is usable for Canadians of all ages, but it's most useful to today's young investors who will have more contributions and more time to watch their wealth compound.

Indeed, while the long-term effects of regular TFSA contributions and systematic investment of proceeds are difficult to fathom, they're well worth it, enabling today's young investors to retire in style with or without pension payments thrown into the mix!

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