Retire at 55: How Your $20,000 TFSA Can Become $500,000 in Just 25 Years

Description

Canadian savers want to set aside enough cash to enjoy a comfortable retirement. Early retirement at 55 would be amazing.

Can you retire at 55?

For some people, however, retiring at age 55 might seem like a dream that is simply unrealistic. Here's the good news: young Canadian investors can achieve the goal.

The secret to an early retirement lies in the ability to eliminate expensive debt, while harnessing the power of compounding on investments.

Pay off credit cards

Credit cards are the top killers of early retirement.

Banks charge up to 20% interest on unpaid credit card balances. The fees drain away cash that could otherwise be invested for retirement. Credit cards are useful for their rewards points and convenience, but it is essential to ensure the balance is paid in full every month.

TFSA savings

Once credit cards are paid off investors should consider contributing to a Tax-Free Savings Account (TFSA). The TFSA is a great vehicle for young investors as it provides flexibility while giving Canadians a chance to build significant savings without worrying about additional taxes on earnings and capital gains.

The government created the TFSA in 2009. Since then, the cumulative contribution limit increased to $69,500. The limit rose by $6,000 in 2020.

Most Canadian banks have online brokerage services that enable you to set up a TFSA investing account.

Inside the TFSA, investors can buy top dividend stocks and use the distributions to acquire new shares. The best strategy is to reinvest automatically. A quick call to your online brokerage is all that is required to put the process in motion. You don't have to monitor the payouts and then make new purchases.

Top stocks to help you retire at 55

The best stocks to own tend to operate in sectors that provide essential products or services. They also have long histories of growing revenue and raising dividends.

The Canadian banks are good examples and their share prices appear cheap today.

Investors might want to consider **TD Bank** (TSX:TD)(NYSE:TD) for a TFSA portfolio. The bank is widely viewed as the safest pick among the large Canadian banks due to its heavy focus on retail banking activities.

TD gives investors good exposure to the U.S. through its large American operations. The economic challenges created by the pandemic lockdowns are putting pressure on TD and its peers, but the long-term outlook should be solid. TD survived every previous market crisis and remains very profitable.

A $20,000 investment in TD just 25 years ago would be worth more than $525,000 today with the dividends reinvested.

The stock now trades near $60 per share compared to $75 before the pandemic. At the current price, investors can pick up a 5.25% yield. That would generate $26,250 per year in passive income on a $500,000 portfolio. Inside a TFSA, all the income would be tax-free!

The bottom line for early retirement

Investors who start the process at the age of 30 could potentially retire at 55. A couple who invested $40,000 in TD just 25 years ago would now have a comfortable retirement fund of more than $1 million!

A balanced portfolio is always recommended and the **TSX Index** is home to many top stocks that have delivered similar or even better returns. The downturn in the market this year means several top names now trade at attractive prices.

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