Millennial Wealth: Yes, You Can Retire Rich!

Description

Millennial investors want to know how they can save enough money to finance a comfortable retirement
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Defined benefit vs defined contribution pensions

It makes sense to consider the type of pension benefits offered by potential employers when searching for a new job.

Defined benefit pensions still exist, but most companies that pay pension benefits now offer defined contribution plans.

Defined benefit

Under a defined benefit program the business makes the full contribution to the pension fund and guarantees a fixed payout to the employee at retirement.

When the employee moves to a new company, the employer determines a value for the pension at that point. The funds often remain with the company and the employee receives a pension from the firm upon retirement. Otherwise, a payout is made and the person puts the money in a locked-in retirement account (LIRA).

Defined contribution

A defined contribution plan shifts risk to the employee, but it also offers more flexibility and is sometimes very generous. Employees have the option to contribute a set percentage of their earnings to the program. The company then matches the contribution according to its policy. Typical match levels range anywhere from 50% of the employee’s contribution to 150%. The retirement payouts depend on how well the investments perform.

Young employees should maximize their allowable contributions to get the highest possible match from the company. The automatic deduction from the salary makes the savings process less painful and ensures contributions are made every month. In addition, the firm normally hires professional wealth managers to oversee the investments.

When an employee changes companies the funds move with the person and are placed in a LIRA.

RRSP investing

The Canadian government created the RRSP in 1957 to help people without company pensions save for retirement. The program improved over the years and is still an important tool for retirement planning.

Canadians can contribute as much as 18% of their annual income to RRSP accounts, up to a limit. Unused RRSP contribution room can be carried forward.

Contributions reduce taxable income for the relevant tax year. Ideally, contributions are maximized when a person’s income is at its highest point.

As such, millennials might consider stockpiling their RRSP room until they reach peak earnings in the coming years. With a bit of planning, the funds will be withdrawn in retirement at a lower marginal tax rate.

It’s important to note that company pension contributions for any given year count toward the allowable RRSP amount.

TFSA investing

The Tax-Free Savings Account (TFSA) was introduced in 2009 to help Canadians save more money and invest for retirement. Flexibility on withdrawals and the tax-free status of interest, dividends, and capital gains make the TFSA an appealing tool for young investors.

The CRA increased the TFSA limit by $6,000 in 2020. Canadians now have as much as $69,500 in contribution space. Contract workers and self-employed individuals regularly take advantage of the TFSA to save for retirement.

Investors can harness the power of compounding to turn relatively small initial investments into large personal pensions. One strategy involves buying top dividend stocks and using the distributions to acquire more shares. Over time, the snowball effect can be substantial.

For example, a $10,000 investment in **Royal Bank** stock 25 years ago would be worth about $300,000 today with the dividends reinvested. The same investment in **Fortis** would be worth $200,000 right now with the dividends reinvested.

That means a person could have turned an initial $20,000 portfolio at age 30 into a $500,000 retirement fund at age 55 today.

The bottom line

Young Canadians have a number of options to set money aside for retirement, regardless of their career paths. With the advantage of time and some careful planning, millennials can set themselves up to retire rich.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FTS (Fortis Inc.)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
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