GenX Investors: How to Build a Substantial Retirement Fund in the Next 10-20 Years

Description

GenX investors hope to enter retirement as early as 10 years from now. On average, most people in the group are probably looking at another 15 years of work before they can throw away the alarm clock.

Depending on the level of savings and access to a company pension, there might be a need to boost the personal retirement fund. Additional income to complement CPP, OAS and the company pension is always helpful to cover anticipated living expenses at 65.

Otherwise, the goal could be to move up the retirement date a few years.

RRSP vs. TFSA for retirement savings

GenX investors are likely approaching their top income years. As a result, the RRSP should probably be the first choice right now for putting away extra cash for retirement. Contributions are used to reduce taxable income. As such, the largest benefit comes when you are in a high marginal tax bracket.

One part of the retirement planning strategy involves pulling funds out of the RRSP when you are in a lower tax bracket. People who retire at 55, for example, can use their RRSP savings to cover living expenses until 65 when full CPP and OAS pensions become available.

The TFSA is also very useful. RRSP space gets reduced by amounts contributed under company pension plans, so there might be additional funds available to invest.

Inside the TFSA, all income generated from interest, dividends, and capital gains remains beyond the reach of the CRA. When the time comes to remove the money, the TFSA withdrawals are not considered income and won't be taxed. This is not the case with RRSPs.

It therefore makes sense to pull funds from the TFSA when retirement income is higher. This would generally occur when a person collects CPP, OAS, and company pension payments.

Best stock picks

An investment horizon of 15 to 20 years is enough time to tap the power of compounding. As such, it might make sense to focus on top-quality dividend stocks that have strong tracks records of distribution growth. The dividends can be reinvested to expand the size of the portfolio until the cash is needed for retirement. At that point, it might be possible to leave the capital in place and simply spend the dividends.

The recovery in the broader market in recent months eliminated the cheapest deals, but some top dividend stocks still trade at attractive prices.

Bank of Montreal (TSX:BMO)(NYSE:BMO) is a good example. Canada's oldest bank just reported better-than-expected results for fiscal Q3 2020. While near-term challenges remain as the economic recovery unfolds, Bank of Montreal has the capital to ride out the storm.

The board has paid a dividend every year since 1829, so the distribution should be safe. At the time of writing, Bank of Montreal's stock trades close to $82 per share and offers a solid 5% yield.

Investors who bought the stock below $60 in March are already sitting on nice gains, but more upside should be on the way. Bank of Montreal traded above $100 at the start of 2020.

The bottom line

The **TSX Index** is home to many high-quality dividend stocks that appear cheap today and would be solid picks for a TFSA or RRSP portfolio.

GenX investors might have less savings time available than the Millennials, but there is still opportunity to put some serious cash aside for retirement.

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Date
2025/09/12
Date Created
2020/08/28
Author
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