TFSA Investors: Retire Without Using CPP!

Description

The Canada Pension Plan (CPP) is used by retirees across Canada by the time they turn 60. At this age, you can start taking out CPP each year as long as you've retired. While the funds aren't enough to live on, coupled with your investments it can certainly be enough to survive.

But there's a way to make your CPP work even harder for you, and that's by not using it when you first retire. Why not? Because for every year that you delay, you increase your CPP by 8.4%. By the time you reach 70, that's an enormous increase.

But wait, now you have to wait another *decade* to retire? And who knows if you'll live more than another decade or so? Dark, I know, but it's what you have to consider when you retire. However, if you're able to delay using it to take advantage of that 8.4%, there are other ways to bring in passive income to offset your CPP.

Enter TFSA

The Tax-Free Savings Account (TFSA) will be your primary method to offset your CPP. This account currently has $69,500 available of contribution room that you can use for investing, tax free. Since you're looking to retire, this is an excellent way to create a retirement nest egg that you can use without paying taxes.

So what you need are stocks that will grow solidly over the next decade or so before you retire, and also offer dividends. There are two reasons for this. First, you of course want solid growth to increase your investments, but you also need dividends. These dividends can be reinvested to grow your investment, and when you retire to help by using them as a paycheque.

All you need to do is find a blue-chip company that can provide you with this type of growth. A great area to consider are bank stocks. Canada's Big Six Banks have been around for a century, in most cases. Dividend payouts have been steady, with hardly any decreases in that 100 years. In fact, most have even increased dividends during the current financial fallout.

CIBC

If you're going to invest hoping for solid growth and huge dividends, then I would buy **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM). While the bank might be hit hard by the current economic crisis, it also has a lot of room for growth. The company is currently the most Canadian of Canada's banks, which leaves opportunities to expand.

Beyond that, CIBC has the largest dividend yield of the Big Six Banks at 5.93% as of writing, with a compound annual growth rate (CAGR) of 6.8% over the last five years for its dividend. In the last five years, the company has had a return of 40% as of writing, with a CAGR of 8.2% in the last decade. So there's your solid growth in both stock price and dividends.

Bottom line

If you're 50 today, let's say you are able to hold off until 70 before taking advantage of that CPP. That would leave 20 years of growth for CIBC. In that time, a $60,000 investment, only part of your TFSA contribution room, could grow to $841,408.77 with dividends reinvested. After that, it's up to you how you use your enormous investment to live that retirement life.

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