TFSA Investors: How to Turn $25,000 Into a $550,000 Pension

Description

Canadians are using their Tax-Free Savings Account (TFSA) to set cash aside for the golden years.

TFSA benefits

The TFSA is a great tool to build a savings fund that can complement CPP, OAS, and RRSP income.

Younger investors can start their retirement fund inside a TFSA and save RRSP contributions for later years when they might be in a higher tax bracket. Older investors with 10-15 years to go before retirement might be maxing out their RRSPs and can use the TFSA to build additional savings to meet retirement goals.

Seniors benefit by directing RRIF payments and other cash to a TFSA to earn tax-free investment income. This helps avoid OAS clawbacks imposed by the CRA when net world income hits a minimum threshold.

A TFSA is particularly useful for self-employed workers who pay themselves with dividends and therefore don't get RRSP space. In addition, contract workers and those who are part of the gig economy won't have company pensions, so they can use the TFSA to build a self-directed retirement fund.

For some investors, the TFSA money serves as a rainy-day fund, as it is easily removed for an emergency. That's not the case with RRSPs, where a withholding tax is applied to the withdrawals.

Best investments for a TFSA retirement fund

The stock market crash in 2020 reminded investors that stocks carry risk. However, the subsequent rebound also followed the historical pattern after a crash. Investors who put money to work when everyone else panics tend to see strong returns. Investors who remain calm and ride out the volatility also benefit over the long-haul.

Not all stocks are equal, so it's important to identify good names you can hold for years.

When investing for retirement, it makes sense to seek out top-quality companies with long track records or revenue and profit growth. These businesses normally provide essential products or services and enjoy competitive advantages in their respective markets.

They also pay dividends that grow in step with free rising earnings and strong cash flow.

Let's take a look at one Canadian stock that has provided investors with fantastic returns for decades and should be a solid pick today for a TFSA retirement fund.

Is Fortis a good stock to buy?

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with businesses across Canada, the United States, and the Caribbean. The assets include power generation facilities, electricity transmission networks, and natural gas distribution.

While these might not be overly exciting, the revenue stream tends to be predictable and reliable due to the nature of the businesses and the fact that most operate in regulated environments. That's great news for TFSA dividend investors who need reliable income, or want to use the dividends to buy more shares.

Fortis grows through acquisitions and the expansion of existing operations. The company's current capital program of nearly $20 billion is expected to boost the rate base from $30.2 billion in 2020 to $40.3 billion in 2025.

As a result, the board intends to boost the dividend by an average annual rate of 6% over that timeframe. Fortis just increased the dividend for Q4 2020 by 5.8%. The company raised the payout in each of the past 46 years, so the guidance is credible. Investors who buy Fortis today can get a 3.7% yield.

Long-term investors have done well with Fortis. A $25,000 investment in the stock just 25 years ago would be worth $550,000 today with the dividends reinvested.

The bottom line

TFSA investors can take advantage of dips in the market to add top-quality dividend stocks to their holdings. A balanced portfolio is always recommended and the **TSX Index** is home to many top stocks that have delivered amazing long-term returns.

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2. Investing

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