



TFSA Investors: How Long Will Your Money Last?

Description

The average Canadian holds about \$19,633 in their Tax-Free Savings Account (TFSA) according to Statistics Canada. That means millions of Canadians are leaving out thousands of dollars in potential tax savings from one of the most popular investment schemes in the country.

It also means that Canadians are underprepared for retirement or unable to generate passive income from accumulated wealth. If you're in this situation, it may be a good time to reassess your personal finances.

TFSA maximization

Unsurprisingly, \$19,633 isn't enough to live on. That amount wouldn't even last a year, even if it's combined with other government-mandated pension and retirement schemes.

To secure your future, the first step is to [maximize the TFSA contribution room](#). According to Statistics Canada, the average unused contribution room was \$30,947 in 2017. That amount could be much bigger by now.

Simply maximizing your contributions since the TFSA was introduced would make your account worth \$69,500. Check with the Canada Revenue Agency (CRA) to see how much room you have left. Try to close the gap to set yourself on a reliable path to financial freedom and passive income.

Investing your TFSA

The next step is to cleverly invest your TFSA to maximize income or growth. For instance, deploying the full \$69,500 in a high-yield dividend stock like **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) would deliver \$4,170 in passive income every year. That's enough to cover two months of living expenses in most parts of the country!

Of course, you could reinvest the dividends to expand your portfolio even further. Consider the fact that BCE's stock price has appreciated by 165% since 2008. In other words, the stock has delivered a compounded annual growth rate of 8.4% over the past 12 years.

If it can sustain this pace of growth over the next decade, your \$69,500 TFSA investment could be worth roughly \$156,563 by 2030. A 6% dividend yield on that amount would deliver nearly \$9,400 in annual passive income.

How long will your TFSA last?

If you followed the steps mentioned above, there's no reason why a maxed-out TFSA couldn't last you forever. The \$9,400 in annual passive income could cover at least four months of expenses. The rest of the year could be covered by government schemes like the Canada Pension Plan (CPP) or the Old Age (OAS) security payments.

If you're too young to receive CPP or OAS, you could sell a portion of your TFSA every year without running out of cash. The 4% rule of personal finance states that you can sell up to 4% of your assets every year without exhausting your resources over time. 4% on a \$156,563 TFSA account delivers an additional \$6,260 in annual passive income.

Bottom line

The TFSA is really all you need to secure passive income forever. Maximizing your TFSA contribution room and investing in robust dividend growth stocks such as BCE Inc could make you financially free within a decade or so. It's never a bad time to get started.

CATEGORY

1. Investing

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