



How to Get to \$826K in Your TFSA

Description

A 2018 survey conducted by **CIBC** revealed that Canadians estimated they'd need \$756,000, on average, in personal savings to retire comfortably. The inflation in Canada has been low lately — about 0.6% in 2020. However, the Bank of Canada aims for a long-term rate of about 2%.

Let's be conservative and run our numbers based on a 3% rate. Fast forward to 2021, according to the survey results, Canadians expect to need about \$826,000 to retire comfortably.

You might need more or less based on your unique lifestyle. To achieve a \$826,000 Tax-Free Savings Account (TFSA), first, save regularly. Then, invest smartly. I'll elaborate with some examples below.

Contribute the maximum amount to your TFSA each year

TFSA's have contribution limits every year. The TFSA limit for 2021 is \$6,000. Any unused room from previous years accumulate and can be contributed in future years.

In any case, you should strive to save and contribute the maximum amount allowed to your TFSA each year.

Imagine if you were eligible for the TFSA since its inception in 2009, but you never contributed to it, your cumulative contribution room would be \$75,500 this year! It'd be much harder to come up with a lump sum to make a big TFSA contribution versus saving a much smaller amount every year.

Besides, the sooner you contribute to your TFSA, the sooner your money can start working hard for you, providing tax-free income and growth.

Get to \$826K in your TFSA with dividend stocks

If you're using your TFSA as a retirement fund, you might want to keep it conservative instead of investing in speculative stocks for the chance to strike riches. If you're starting early, you can certainly

choose to take lower risks.

Assuming you're just starting to build your TFSA retirement fund, you could contribute \$500 a month (\$6,000 a year) to your TFSA aiming for a portfolio yield of 3% and growth of 7% a year.

By reinvesting the dividends received along with maximum TFSA contributions each year, you'd reach more than \$826,000 in 23 years. Specifically, your TFSA retirement fund will be \$833,382. On a 3% yield, you'd receive dividend income of \$25,001 a year.

Dividend stocks that could work well for this strategy include **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) and **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)). Currently, Fortis yields 3.9% and is growing its earnings and dividends by about 6%. Enbridge yields 7.4% and is growing its dividend by about 3%.

So, their estimated annualized returns are close to 10% over the next few years. Importantly, the Canadian Dividend Aristocrats are trading at good valuations.

Investing in dividend growth stocks with decent yields is a defensive approach. In a declining stock market, they'll generate dividend income with which you could reinvest at lower prices.

Get to \$826K in your TFSA with growth stocks

You can potentially reach a \$826,000 TFSA faster with a portfolio of growth stocks. Consider growth stocks that tend to increase their revenues and earnings at a high rate.

For example, **Enghouse Systems** ([TSX:ENGH](#)) is a good candidate. Its recent revenue and earnings-per-share growth was about 30% and 37%, respectively. Its returns on equity have been at least 17% every year since fiscal 2016. Since then, the growth stock has also delivered extraordinary annualized returns of 26%.

Over a longer term, since fiscal 2007, the growth stock has generated returns of 24% per year. The company is much bigger now and trading at a higher multiple, so it'll probably deliver lower returns going forward.

Assuming a 15% rate of return, it would take 22 years to arrive at more than \$826,000 in your TFSA. Specifically, you'd arrive at \$932,719 in that year.

By the way, Enghouse has been paying a growing dividend every year since 2009. Although its yield is tiny at 0.85%, it has increased its dividend by about 22% per year! That's a high-growth dividend.

The Foolish takeaway

Save regularly and contribute the maximum amount allowed each year to your TFSA. When building your TFSA [retirement fund](#), select each stock carefully, according to your financial goals. Manage the portfolio as a whole and ensure you've got a diversified mix of wonderful businesses.

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