



Millennials: How to Earn \$1,000,000 by Age 40

Description

Millennials today have ways to be affluent and achieve [financial independence](#) early. Many of them learn personal finance concepts online to get a head start. However, if the goal is to earn the first \$1 million, opening and investing in a Tax-Free Savings Account (TFSA) is a no-nonsense approach.

Ever since the TFSA came in 2009, most Canadians started having dreams of becoming millionaires. The investment account generates return or income the Canada Revenue Agency (CRA) can't touch. More so, you can keep your TFSA as long as you want. Thus, growing your TFSA balance to \$1 million isn't an impossible dream.

\$1 million goal

Some millennials could be trying to [earn \\$1 million through the TFSA](#) by age 40. The goal is ambitious but not entirely improbable if you believe in the power of compound interest. One of the TFSA's fantastic benefits is that you can contribute regardless of income level.

However, the first actionable step is financial discipline. Building wealth takes time. Financial salvation doesn't happen overnight, unless you have a considerable inheritance. In 2021, the accumulated TFSA contribution room is now \$75,500. For first-timers to have the same available room, you must have turned 18 years old in 2009.

Theoretical computation

To hit a TFSA balance of half-a-million dollars in 20 years, your rate of return must be at least 9.92%. If you hold the investment for eight more years, and your money compounds to more than \$1 million. This sample computation illustrates that the tax-free money growth feature of the TFSA enables users to amass a fortune over time.

20-year-old Canadians who start using their TFSAs in 2021 will have available contribution room of \$18,000. Let's assume an investment return of 9.92% again. In 20 years, or at age 40, the TFSA

balance will reach \$119,345.73. The key to seeing exponential tax-free money growth is to maximize the TFSA contribution limits from here on until 2041.

Millionaire maker

Pembina Pipeline ([TSX:PPL](#))([NYSE:PBA](#)) is an exciting option for TFSA investors, because it pays a high 6.89% dividend. However, it's not the desired yield for aspiring millionaires. But since the energy stock's payout is monthly, it could compensate. The money churning is faster, as you can reinvest the dividends every month.

The \$20.12 billion pipeline giant appears to be over the hump. Its year-to-date gain thus far is 23.71%. Market analysts also forecast the price to climb 15% from \$36.58 to \$42 in the next 12 months. Pembina's 617.77% total return in the last 20 years (10.34% CAGR) showcases the business's resiliency.

Pembina's large asset base, an extensive pipeline network, and 19 gas-processing facilities give it economic moat. TFSA investors who have held this energy stock since 2009 could be nearing their \$1 million goals by now.

The next millionaire

Millennials with \$1 million goals only need to max out their TFSA limits every year. However, you must not overcontribute, or else you'll incur a 1% penalty tax of the excess amount. The tax agency also prohibits day trading and would treat your earnings as taxable business income.

You might not reach the target at age 40, but you'll come close to it. Give or take another 10-15 years, and you could be the next millionaire.

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