



## Who Wants to Be a TFSA Millionaire?

### Description

A lot of Canadians want to be Tax-Free Savings Account (TFSAs) millionaires.

That's the takeaway from a recent *Financial Post* article authored by financial adviser Michelle Nickel.

In her article, Nickel argues that by contributing regularly and investing prudently, a Canadian [could reach a \\$1.1 million TFSA by age 65](#). She supports her argument using a chart provided by the **Royal Bank of Canada**. The chart shows that a Canadian who maxes out their contributions every year starting at age 18 reaches a \$1.16 million balance by their 65th birthday. Assuming, that is, that they get a 7% return.

In the markets and in life, nothing is ever certain. Stocks typically rise about 10% a year—though lately it's been more than that and sometimes it's a lot less. But it is undeniably true that you can get to \$1 million in your TFSA. In this article, I'll go over the math that shows how it can happen.

## How long does it take to become a TFSA millionaire?

With today's \$75,500 TFSA maximum you would get to a \$1 million TFSA balance in 28 years, assuming:

1. You made no additional contributions.
2. Your annualized return was 10%.

The math behind this is pretty simple:

An investment with a 10% return is represented by 1.1:

One, the base amount, plus 0.1, the return.

Raising 1.1 to the number of compounding periods ('n') gives you a multiplier that tells you how much the starting amount grows. For example, 1.1 to 28 gives you 14.42. Multiplying 14.42 by 75,500 gives

you 1.088 million. So it takes 28 years to get to approximately one million dollars. And we're talking about TFSAs here, so taxes are not a concern. If you can achieve a 10% annualized return starting with \$75,500, that \$1 million is yours in 28 years. This scenario doesn't even require future contributions!

## Even simple index funds could get you there

If you think you need to speculate in high-risk growth stocks to get to \$1 million in a TFSA, think again.

You can actually get there with something as simple as an index fund.

The U.S. markets have averaged about a 10% annual return since the 1970s. The Canadian markets aren't too far behind. If the next 40 years in stocks are as good as the last 40, a stock market index fund will get you to a million starting with \$75,000.

Consider the **iShares S&P/TSX 60 Index Fund** ([TSX:XIU](#)), for example. It's a Canadian index fund built on the **TSX 60**--the 60 largest Canadian stocks by market cap. These are mostly big conservative companies like banks, utilities, and railroads, which is hardly the kind of high-risk stuff you'll lose your shirt on. Yet this kind of fund can easily achieve a 10% return. This year, for example, the fund is up 22%. That's a solid return for any stock--for a diversified index fund, it's truly phenomenal. On top of that, the fund throws off a dividend-yielding 2.3%, and its management fee is a pretty low 0.16%. So, you'll get some cash income out of your investment in it on top of the potential capital gains.

What does all this mean?

Quite simply, that you can achieve a million-dollar TFSA even with something as boring as an index fund. It won't happen overnight, but it can happen eventually. So get saving and investing. Financial freedom awaits.

### CATEGORY

1. Investing

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