2 Top TSX Dividend Stocks to Start a TFSA Retirement Fund in 2022

Description

Canadian savers are using their TFSAs to create retirement portfolios full of top TSX dividend stocks.

TFSA limit in 2022

The TFSA is a useful tool to help self-employed people and gig workers create their own pension.

Each year, the TFSA limit gets increased. For 2022, the TFSA contribution limit will be $6,000. This will bring the cumulative contribution space since the TFSA's inception in 2009 to $81,500. That's adequate room to create a meaningful pension plan to set you up for a comfortable life in retirement.

A popular strategy for a self-directed retirement fund is to buy top dividend stocks and use the distributions to acquire new shares. Most companies have a dividend-reinvestment plan (DRIP) that enables distributions to automatically buy new stock. Some even provide a discount of up to 5%.

Over time, the total return from the compounding process can be substantial, especially when dividends increase annually, and the share price gradually moves higher.

Let's look at two top TSX dividend stocks to start a balanced TFSA fund.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility company based in Halifax with $57 billion in assets located across Canada, the United States, and the Caribbean.

The board has raised the payout in each of the past 48 years and intends to boost the distribution by an average rate of 6% per year through 2025. Fortis has a $20 billion capital program on the go that will increase the rate base by about a third over the next five years. The added revenue and cash flow will support the dividend hikes.

A $10,000 investment in Fortis 25 years ago would be worth about $175,000 today with the dividends reinvested.

TD Bank

TD (TSX:TD)(NYSE:TD) is a giant in the Canadian banking industry with a current market capitalization of $170 billion.

Government assistance for homeowners and businesses, along with deferrals on loan payments, helped avoid a wave of bankruptcies and loan defaults that many pundits feared would occur as a result of the pandemic lockdowns.

TD didn't take as big a hit as expected, and the company is now sitting on significant extra cash it needs to deploy. The government just gave the banks the green light to start raising dividends again after placing a ban on payout hikes last year. TD has historically been one of the best dividend-growth stocks on the TSX Index. It wouldn't be a surprise to see TD boost the payout by 20% when it announces fiscal Q4 2021 results.

Higher interest rates will put some borrowers in a tight spot starting in 2022, but the overall impact should be positive for TD. When interest rates rise, the bank can normally generate better net interest margins and get stronger returns on cash that has to be kept aside to cover deposits.

A $10,000 investment in TD Bank 25 years ago would be worth about $245,000 today with the dividends reinvested.

The bottom line on top stocks to start a TFSA pension

Fortis and TD are top dividend stocks that have delivered impressive total returns for investors over the past few decades. There is no guarantee they will generate the same results in the next quarter century, but these stocks still look attractive today for a diversified TFSA retirement fund.

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