Happy Retirement: Do 1 Thing 1st, Then Go All Out on Your TFSA

Description

The journey to a happy retirement requires thorough planning. Canadians who are saving for the future are fortunate to have a Tax-Free Savings Account (TFSA). The investment account has unique features that can help users grow their balances faster over the years.

Also, unlike the RRSP, withdrawals are tax free. However, if you're building a nest egg, it would be best to focus on debt reduction first before going all out on your TFSA contributions.

Recommended strategy

Most retirement experts would recommend prioritizing debt repayments over saving or investing. The logic is that loans are hindrances to the uninterrupted build-up of a retirement fund. It won't hurt to sock away a few bucks for savings, but a greater portion should go to the liquidation of debts to reduce interest costs.

You also eliminate mental or emotional burden when you pay off debts, particularly a mortgage. Moreover, don't obtain new ones, or it will set back your timetable. If you have multiple debts, create a payoff plan, whether to prioritize higher balances or interest rate. Debt consolidation is an option if you want a single payment for all debts.

Best use for your TFSA

The TFSA is a wealth builder if you can maximize the contribution limits every year. Users benefit from the power of compounding through reinvestment of the tax-free income, interest, or gains inside the account.

Holding idle cash in a TFSA isn't advisable, because returns are negligible, if not zero. Don't attempt to borrow money for investment purposes, unless the return on investment is higher than your borrowing costs. If the investment generates further income, use it to pay down debts.

Once your debt is zero or down to a very significant level, you can begin maximizing your annual TFSA contribution limits. Stick to Canadian investment instruments to avoid paying the 15% withholding tax on income earned from foreign assets. Your contributions and tax savings should grow exponentially.

Wealth builders

The investment landscape today is volatile because of rising inflation and global supply chain disruptions. Nonetheless, the domestic stock market has wealth builders. **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) are wealth builders for TFSA investors.

RBC is the country's largest publicly listed company. With a market cap of $175.74 billion, the giant lender can survive economic downturns, like it has in the past. The total return in 20.02 years is 901.85% (12.20% CAGR). If you invest today, the blue-chip stock trades at $124.64 per share and pays a 4.11% dividend.

Canadian Natural Resources benefits from the strong commodity pricing in 2022. Also, the top-tier energy stock outperforms the TSX year to date at +32.01% versus -11.13%. The $82.92 billion company has a broad exposure to Canadian oil, which is one of the country's best resources.

You get value for money at $69.17 per share — not to mention the attractive 4.34% dividend yield. In 5.01 years, CNQ's total return is 134.66% (18.59% CAGR). Its share price has risen higher in the last three years on account of annual EPS growth of 49%.

Foolproof plan

TFSA users dreaming of comfortable retirement needs only one foolproof plan. Pay down debt faster if possible and then use your free extra cash to purchase income-producing assets like dividend stocks to hold in your TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:RY (Royal Bank of Canada)

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