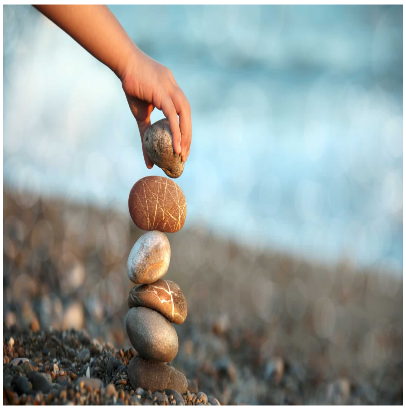

Change Your Future: What to Hold in a TFSA in 2022

Description

Saving for retirement is getting tougher for 53% of Canadians. Rising inflation and interest rates heighten retirement and savings concerns, especially for those under the age of 35. According to the results of the 2022 Healthcare of Ontario Pension Plan (HOOPP) and Abacus Data survey, people in this age bracket see the current economic conditions as barriers to homeownership and savings capacity.

Steven McCormick, HOOPP's SVP for Plan Operations, said, "Well over half of Canadians expect these factors to cause financial challenges and force them to retire later." Funding retirement through the sale of a home is also becoming a less viable strategy for many individuals, he adds.

McCormick wonders whether younger folks are heading for a perfect storm with regards to retirement security. While Canadians will receive the Old Age Security (OAS), plus the Canada Pension Plan (CPP), for most, this won't guarantee financial security in the sunset years.

A TFSA can change your future

The Tax-Free Savings Account (TFSA) was introduced in 2009 to encourage Canadians to save for retirement. Like the older Registered Retirement Savings Plan (RRSP), money inside the account compounds or grows tax-free. However, unlike the RRSP, you don't incur taxes when you withdraw from your TFSA. Also, TFSA withdrawals won't impact government benefits.

Low-and moderate-income earners should consider using their extra or discretionary money to contribute to their TFSA because the contribution room is the same regardless of income. While cash is good, the TFSA isn't the best place to store it. Instead, investors should consider holding income-producing assets like dividend growth stocks in their TFSA.

Canadians who can maximize TFSA contributions each year will surely reap the benefits when they retire. The power of compounding comes into play when you reinvest dividend earnings and do not touch the principal.

Dividend growth stocks

Most TFSA investors prefer to hold dividend growth stocks because of the potential to earn in two ways, price appreciation and dividend income. With this investment strategy, your TFSA balance will grow faster over time. Among the ideal options for long-term investors are the **National Bank of Canada** (TSX:NA) and **Hydro One** (TSX:H).

National Bank, Canada's sixth-largest lender, has increased its dividends for 12 consecutive years. At $90.74 per share, the $30.53 billion bank pays an attractive 4.04% dividend. The payout is quarterly so you'll have regular income coming in every three months. In the first half of fiscal 2022, net income increased 17% to $1.82 billion.

Hydro One is an optimal buy in August 2022 following strong revenue growth in the second quarter. Revenues and net income increased 6.8% and 7.1% versus Q2 2022. This $21.66 billion company is enduring as it's the largest electricity transmission and distribution provider in Ontario. It has a predictable growth profile, with consistent rate base growth expected under a multi-year approved capital investment program.

This utility stock has a dividend growth streak of six years. If you invest today ($36.19 per share), the dividend yield is a decent 3.14%.

Contribution room accumulates

Don't worry about not maximizing your annual TFSA limits because unused contribution room accumulates and carries over to the next year. If you contributed $0 in 2021, your available contribution limit in 2022 is $12,000. The key to retirement security is to sock away money whenever possible and purchase income-generating dividend growth stocks to hold in your TFSA long-term.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)
2. TSX:NA (National Bank of Canada)

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