



RRSP Investors: How to Turn \$20,000 Into \$830,000

Description

Canadian savers have used their Registered Retirement Savings Plan (RRSP) contribution space to build retirement wealth for decades. One popular [investing strategy](#) involves buying top [TSX](#) dividend stocks and using the distributions to add more shares to the portfolio. This sets off a powerful compounding process that can turn relatively small initial investments into large retirement savings over time.

RRSP benefits

The history of the RRSP dates back 65 years. In 1957, the government set up the RRSP to give people without company pensions an attractive way to save for retirement.

The early version was less generous than the current RRSP. Initially, the contributions were capped at 10% of income up to \$2,500. Unused contribution space couldn't be carried forward. Today, the RRSP is more flexible. People can contribute up to 18% of their income to a maximum of \$29,210 for the 2022 tax year and carry forward unused space to future years.

The flexibility benefits young investors who might decide to contribute to a Tax-Free Savings Account when they have lower salaries and save their RRSP space for later years when they have larger incomes.

Why?

RRSP contributions reduce taxable income for the relevant year. The contributed funds can grow tax-free inside the RRSP and are taxed as income when withdrawn. Ideally, contributions are made when the person is in a high marginal tax bracket and removed in retirement when, with some financial planning, the investor is at a lower marginal tax rate.

It is important to remember that contributions made by employees and employers to a company pension count toward the 18% limit. If a person has a generous company pension plan, the work contributions can use up a large part of the RRSP space.

A wide variety of investments can be held inside the RRSP. The most common would be stocks, bonds, [mutual funds](#), ETFs, and guaranteed investment certificates (GICs).

RRSP investments tend to be buy-and-hold positions. This is why owning top dividend stocks and reinvesting distributions in new shares is popular. When steady dividend growth is combined with a rising share price the investment can generate significant total returns.

Canadian National Railway

CN ([TSX:CNR](#))([NYSE:CNI](#)) raised its dividend by 19% for 2022. The board has increased the payout by a compound annual rate of roughly 15% since the mid-1990s, when CN became a publicly traded company.

CN operates a unique network of railway tracks that connects ports on the Atlantic and Pacific coasts of Canada to the Gulf Coast in the United States. This gives CN a competitive advantage when domestic and international clients are searching for transport options to move their products.

CN generates strong free cash flow to support the dividend growth. Revenue tends to grow with the expansion of the Canadian and U.S. economies, and CN is able to raise prices when its costs increase. This is important in the current environment of high inflation.

CN generates revenue in both Canadian and U.S. dollars, so the stock is appealing for investors who want to get good U.S. exposure through a top Canadian company.

Long-term RRSP investors have enjoyed strong returns from CN stock. A \$20,000 investment in CN just 25 years ago would be worth about \$830,000 today with the dividends reinvested.

The bottom line on top stocks for RRSP investors

CN is a good example of a top TSX dividend stock to buy for a buy-and-hold RRSP portfolio. There is no guarantee that CN stock will deliver the same returns in the next quarter century, but the company still deserves to be an anchor pick and the strategy of buying dividend-growth stocks and using the distributions to acquire new shares is a proven one for building retirement wealth.

The **TSX Index** is home to many great dividend stocks that now look oversold and deserve to be on your radar today to buy for a self-directed RRSP portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

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