



Millennials: Turn a \$20,000 TFSA or RRSP Into \$160,000 in 10 Years

Description

If you are a millennial, you have a massive opportunity to build long-term wealth through your TFSA ([Tax-Free Savings Account](#)) or RRSP (Registered Retirement Savings Plan). Millennials can afford a very long investment horizon.

Not only do you have years and decades to accumulate savings from wages, but you also have years and decades to contribute and invest through Canadian registered investment accounts.

Pay no tax with a TFSA

The TFSA is the perfect account for earning investment income and paying zero tax. Any income earned from dividends, interest, or capital gains is sheltered from tax liability. Likewise, when you withdraw any of your earnings, you pay zero tax.

Defer tax with an RRSP

The [RRSP](#) is a little different. When you contribute to the account, you get a tax credit that can offset any income earned in the year. It is a great way to reduce your income tax. Investors can put any tax refunds back into their TFSA (or into the RRSP).

The one caveat is that when you choose to withdraw from your RRSP (preferably when you retire), you will have to pay tax on the withdrawal as if it were income.

The key is for millennial investors to start early. Over time, you can earn significant [investment wealth](#) in a very tax-efficient manner. In fact, here is one way you could turn a \$20,000 investment in a TFSA or RRSP into \$160,000 (or more).

Brookfield Infrastructure: A top stock for any TFSA

One stock I would consider for a TFSA or RRSP is **Brookfield Infrastructure Partners** ([TSX:BIP.UN](#))([NYSE:BIP](#)). It owns a diverse portfolio of utilities, railroads, ports, pipelines, cell towers, and data centres.

While these are relatively boring assets, Brookfield has a very smart formula for unlocking earnings potential. For the past 10 years, it has compounded funds from operation (FFO) by a 16.3% annual rate. Just last quarter, it grew FFO by 30% to a record \$513 million!

BIP has a great balance sheet, so it is in a strong position to acquire cheap assets if a recession persists. Likewise, it just [announced](#) a huge opportunity to help **Intel** build a semi-conductor factory in the United States. This nicely complements its large data centre and cell tower portfolio.

These types of deals demonstrate that BIP's backlog continues to remain very robust, despite even the challenging economic environment.

This has been a great stock for [dividends](#) and total returns. That is why it is ideal for a TFSA or RRSP. Over the past decade, it has earned a total 334% return. That is a 15.8% average annual return. However, if dividends were re-invested over that time, investors would have earned an 18% compounded annual return (or 425% total return).

While BIP stock only earns a 3.3% dividend, it has grown its dividend by a 9% annual rate for years. In fact, over its history, roughly a quarter of its total returns have come from its growing dividends.

The Foolish takeaway

Let's say that 10 years ago, you put \$20,000 into a TFSA or RRSP and bought shares in BIP stock. If you took every tax-free dividend earned and repurchased the stock, your total investment would be worth \$105,032 today!

If you also contributed an additional \$200 a month to your TFSA or RRSP and used it to buy BIP stock, your total return would have skyrocketed +50% to \$161,127! Certainly, a more diversified portfolio is recommended. However, this just demonstrates that planning, saving, and investing wisely can help millennial investors multiply and accumulate significant wealth over years and decades.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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