Retire Early: How to Turn Your $50,000 TFSA Into $500,000

Description

Based on data from Statistics Canada, the average age of all retirees in 2021 (public and private sector employees) is 64.4 years old. However, some Canadians still dream of early retirement or at least of retiring before the traditional age, notwithstanding the 2020 global pandemic and rising inflation in 2022.

The goal is still possible provided all the necessary components are present in your retirement plan. Most plans fail because they are idealistic, not realistic. First and foremost, time should be your side, because building retirement wealth takes years. The toughest part is the commitment to save and make prudent investment decisions. Lastly, you should also have a retirement savings product to grow the nest egg faster.

Retirement savings product

Future retirees in Canada are fortunate to have the Tax-Free Savings Account (TFSA). The TFSA is one of the investment vehicles you can use to save for retirement. You can hold income-producing assets like bonds, guaranteed investment certificates (GICs), mutual funds, exchange-traded funds (ETFs), and stocks in the account. Cash is allowed but not advisable because money growth is negligible, if not $0.

TFSA investors don't have to pay taxes on income earned from investments inside the account, while withdrawals are also tax free. TFSA withdrawals don't count as income, so it won't impact federal government retirement benefits like the Old Age Security (OAS) and Guaranteed Income Supplement (GIS).

If you make the TFSA your primary tool to build retirement wealth, maximize the annual contribution limits if finances allow. Don't overcontribute to avoid the 1% penalty tax on the excess contribution. But, as mentioned, the investment time frame should be long to amass a substantial amount.

Dividend investing

One route to grow to grow your TFSA balance is via dividend investing. Let us use a high-yield dividend stock like **Timbercreek Financial** (TSX:TF) to see how the power of compounding works. The $678.76 million non-bank lender has a good history of dividend payments, although the track record is only six years.

However, the 8.37% dividend yield and monthly dividend payments are ideal in a TFSA. In the second quarter (Q2) of 2022, Timbercreek's adjusted net income and comprehensive income increased 11.7% to $15.2 million versus Q2 2021. Its chief executive officer Blair Tamblyn said, "As we expected, we are seeing the benefit of recent interest rate hikes on our primarily floating rate portfolio, translating into higher interest income."

Tamblyn added that while rapid rate increases may impact short-term transaction volume, it generally creates opportunity for flexible non-bank or alternative lenders. If you own shares of Timbercreek ($8.08 per share), the key to compound your money is to reinvest the dividends and not touch them at all.

Because the dividend frequency is monthly, you have 12 times a year to purchase more shares. Assuming the yield remains constant, it would take a little less than 28 years for a $50,000 investment to grow to $500,000. If you are 32 years old today, you have a fairly good chance of retiring at 60.

Challenging task

It's nice to think about early retirement, but executing the plan is a challenging task. From a compound annual growth rate (CAGR) perspective, you need an investment with a 12.2% CAGR per year to grow $50,000 to $500,000 in 20 years.

CATEGORY

1. Dividend Stocks
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1. TSX:TF (Timbercreek Financial Corporation)

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