TFSA: How to Maximize Your Contributions to Retire Rich

Description

When it comes to retirement savings, the Tax-Free Savings Account (TFSA) cannot be overlooked. Annual contribution limits are much lower than the Registered Retirement Savings Plan. However, that certainly doesn't mean young investors cannot use their TFSAs to fund their golden years.

If you've got time on your side, you'll want to make sure you're taking full advantage of the TFSA's tax benefits.

The TFSA's annual contribution limit in 2022 is $6,000, which may not seem like a lot compared to your retirement savings goal. However, what's important to keep in mind, is that any gains or passive income generated from that $6,000 contribution are not taxed. Meaning, that if you're still decades away from retirement, there's a whole lot of time to benefit from the magic of compound interest.

The key to maximizing returns in a TFSA is the annual return. As an example, let's assume your TFSA savings are earning 1% a year, which you might find in a high-yield savings account. If you were to invest $6,000 a year for the next 30 years, your TFSA would be worth close to $250,000. Now, let's instead assume that your $6,000 annual contributions were invested in stocks, earning an 8% return a year. In 30 years, you'd be sitting on a nest egg of close to $700,000.

Stock investing in a TFSA

Investing in stocks will only be as hard as you make it. Disciplined investors that stay committed to a buy-and-hold approach will be rewarded in the long term.

One of the easiest ways to earn a top return in the stock market is through index funds. With a range of different index funds available to choose from today, it's never been easier to build a well-rounded portfolio to match your savings objectives.

For those looking for a more hands-on approach, owning individual stocks may be preferred. One reason to own individual stocks is for the potential to earn more than 8% a year. There are plenty of TSX stocks that have delivered far more than 8% annually in recent decades.

I've reviewed a top TSX stock that long-term investors should have at the top of their watch lists. In addition to being a long-term growth driver, this company can also be a cash generator in the form of dividends to its shareholders.

Brookfield Renewable Partners

As a leader in the growing renewable energy space, **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP) is a company that I feel good about holding for the long term.

The stock has put up market-crushing growth numbers in recent years, and I'm not expecting that to change anytime soon. Shares are up over 130% over the past five years. In comparison, the **S&P/TSX Composite Index** has returned less than 30% in the same time span.

On top of market-beating growth potential, Brookfield Renewable Partners also pays an impressive dividend. At today's stock price, the company's annual dividend of $1.68 per share yields more than 3%.

There aren't many dividend stocks on the TSX yielding above 3% that can match Brookfield Renewable Partners's recent growth rates.

Shares are currently trading close to 20% from all-time highs. Now would be an incredibly opportunistic time to start a position in this top renewable energy stock.

CATEGORY

1. Energy Stocks
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