How to Turn $6,500 Into $779,410 by the Time You Retire

Description

It's never too late to start saving for retirement. I believe you can build a sizable nest egg, even if you're older than half of all Canadians and have never saved before. Here's how the average Canadian saver can turn a newly opened savings account into a six-figure cash cushion within 30 years.

Bare minimum strategy

I believe doing the bare minimum is enough to secure your financial future. That means adopting a simple strategy of maximizing savings, using government savings programs, and investing in a plain-vanilla index fund.

The first step is to maximize your Tax-Free Savings Account (TFSA). The average TFSA balance in 2022 is $32,234 while the maximum aggregate contribution room is $81,500. However, you can launch a new TFSA in 2023 and make your first contribution of $6,500 to get started if you haven't already done so.

Adding $6,500 every year to this account should help propel your savings. Meanwhile, you don't need to pick specific stocks or funds every year. You can simply invest in a traditional TSX index fund such as the **iShares S&P/TSX 60 Index ETF** (TSX:XIU). This fund tracks the 60 largest companies in Canada and has delivered a compounded annual growth rate of 7.5% since inception.

If you're 41 years old or more, you're older than half of all Canadians. That means you have 24 years before retirement. Investing your TFSA in an index fund over this period could turn $6,500 in annual contributions into $779,410 by the time you're over 70.

That's more than the value of an average home and nearly a million dollars! That's enough to survive on.

Dividend-growth strategy

If you're looking for a more aggressive approach to saving for retirement, a dividend-growth plan could be better. Several Canadian companies offer steady growth in earnings and stock price and a reasonable dividend yield. If you reinvest the dividends to buy more stocks every year you can accelerate your investments.

iShares S&P/TSX Canadian Dividend Aristocrats Index ETF (TSX:CDZ) tracks several top Canadian companies that have expanded dividends consistently for years. These are usually heavyweights in the financial, banking, energy, or telecommunications sectors.

The fund has delivered a 6.74% CAGR since inception and currently offers a 4.3% dividend yield. Assuming dividends grow by an average of 6% every year and you adopt a dividend-reinvestment plan (DRIP), you could turn $6,500 in annual contributions into $1,246,809 within 30 years.

Put simply, you could go from no savings to a millionaire retiree with this simple plan.

Bottom line

Your retirement plan doesn't need to be complicated. Doing the bare minimum should help you accumulate $779,410 in your TFSA. Investing in a Dividend Aristocrat fund and reinvesting dividends aggressively could expand that to $1.2 million.

It's never too late. Get started!

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CDZ (iShares S&P/TSX Canadian Dividend Aristocrats Index ETF)
2. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Investing

Date
2025/07/19
Date Created
2022/12/22
Author
vraisinghani