THE GLOBE AND MAIL

This retired engineer’s emergency fund blossomed inside his TFSA thanks to a dividend ETF

LARRY MACDONALD
Special to The Globe and Mail

Published Friday, May 16, 2025

Arden and Trent moved to Canada from the This is TFSA Trouncers, a series that profiles Canadian investors who’ve accomplished incredible feats with their tax-free savings accounts. If you have grown your TFSA to half a million dollars or more, drop us an e-mail atdakeith@globeandmail.comor fill out[this form](). You may choose to be anonymous, but we do require an e-mail address and may request a screengrab of your portfolio for fact-checking purposes. We’ll also be profiling people who haven’t been so lucky with their TFSAs.

It is fairly well known that tax-free savings accounts can be used to save for major purchases, build retirement funds and bet on speculative stocks (for the latter, see [TFSA Trouncers]()). Less well known is using TFSAs to hold emergency funds.

Unexpected calamities do sometimes arise, so it’s good to have emergency funds that can be accessed right away. Historically, this has meant holding them in a chequing or savings account. But the interest rates are low and subject to tax.

Rodger, a retired engineer living in Toronto, prefers to hold his emergency fund in a TFSA

because the returns are tax-free yet still easily withdrawn. TFSAs also offer a range of investments that allow savers to select their preferred mix of return and safety.

Rodger’s choice was a conservative dividend fund: the [iShares S&P/TSX Canadian Dividend Aristocrats ETF]() (CDZ-TSZ). It tracks a diversified portfolio of several dozen Canadian companies that have increased their dividends annually for at least five years in a row. Consistent dividend growth is usually a sign of operational and financial strength.

True, there is still the risk of a company cutting its dividend. Indeed, BCE Inc. did just that this past week. However, the cuts do not worry Rodger, who said: “The ETF has enough holdings across enough sectors that bad news about one holding or sector should not be very significant in the overall performance of the ETF.”

The dividend yield for the ETF is 3.79 per cent on a trailing 12-month basis (net of fund expenses). Rodger prefers to reinvest the dividends through the ETF’s dividend reinvestment plan (DRIP). This saves some money because he doesn’t have to pay commissions to a broker.

He likes that the dividends help smooth fluctuations on a total return basis. Even if there is a drop in share price, it can be fully or at least partially offset by the dividend income. Also, the DRIP is a form of dollar-cost averaging, which smooths returns.

On top of this, his ETF is a set-it-and-forget investment. He leaves all of the management to the iShares team, only occasionally checking in to see how the ETF is performing.

Rodger has other assets such as a retirement fund and a pension, but having fairly steady returns in his TFSA emergency fund is still important. As much as possible, he wants to be able to unload his emergency funds at a profit, "no matter the ups and downs of the markets."

Perhaps this was a risk starting out, but he does not need to worry any more about withdrawing at a loss. Having maxed out his annual contributions to a total of $102,000, his TFSA is currently worth more than $207,600. He had the good fortune of not having any emergencies that required dipping into the fund.

If a withdrawal ever has to be made, the sum taken out can be added to next year's TFSA contribution limit. The sum will consist of the principal deposited by Rodger plus the capital gains and dividend income earned on it prior to the withdrawal. This makes it easy to top up the TFSA emergency fund and keep it growing and earning tax-free returns.

It would not be surprising if Rodger's TFSA has attained one of the best returns for an emergency fund over the past 15 years. In a way, he too has trounced his TFSA, like others have done in the TFSA Trouncers series, except his objective was maximizing return subject to a conservative level of risk.

WHAT THE EXPERT SAYS

We asked Ian Calvert, CFP, CIM, vice-president and principal, wealth planning, at Highview Financial Group, for his thoughts on Rodger's TFSA.

Using the TFSA as an emergency fund can be beneficial as it provides quick access to tax-free funds. But using it exclusively as a traditional emergency fund, holding only high-interest savings, does carry a missed opportunity for utilizing the account's benefits.

In Rodger's case, he has successfully managed to accumulate funds in his TFSA for emergencies while realizing the benefits of tax-free income and growth provided by his equities. His success is based on his own decision-making, and fortunately he hasn't had to withdrawal any capital.

Traditionally, a true emergency fund should be safe and boring. In other words, there is no exposure to equities or other potentially volatile investments. This approach, and the appropriate amount held in cash savings for emergencies, certainly depends on the balance sheet of each individual.

For instance, you want to avoid a scenario in which you need to make a quick withdrawal when your investment has lost a lot of value. A withdrawal in March, 2020, would be a relatively recent example. By holding the iShares S&P/TSX Canadian Dividend ETF, an investment with many underlying Canadian blue-chip stocks, Rodger has reduced but not eliminated his timing risk by being diversified.

However, with growth and reinvested dividends, his TFSA is now at a size where he will likely be able to unload or sell it without a loss, even with a pullback in value.

Ian Calvert is a Vice President & Principal at HighView Financial Group.