Attention Retirees: 5 Dividend Stocks for Retirement Income

Description

Fewer and fewer people are enrolled in employer-sponsored pensions, and that's creating a major challenge for Canadians approaching retirement age.

Fixed-income assets are a good substitute. However, a retirement portfolio containing only securities like bonds and GICs may not generate sufficient cash flow. Even worse, the purchasing power of fixed income does not always keep pace with inflation.

That's why adding a few dividend stocks to a retirement portfolio makes so much sense. They provide ongoing income. Their payouts tend to rise faster than inflation over time. Furthermore, eligible Canadian dividends are taxed at a lower rate than interest income.

But with so many stocks out there, where do you begin? My advice is stick to the tried and true. Think banks, railroads, pipelines, and telecommunications. If the company sells a product that is easily explained to the grandkids, that's a plus.

Here are five dependable dividend payers to get you started.

Stock	Current Yield	Market Cap
Royal Bank of Canada	3.9%	$115.0 billion
Toronto-Dominion Bank	3.7%	$102.7 billion
Canadian National Railway Company	1.7%	$60.0 billion
Enbridge Inc.	3.1%	$51.8 billion
BCE Inc.	4.8%	$45.6 billion

Source: Yahoo! Finance

Let's say a few words about these companies.

The **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and the **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) both churn out some of the highest yields around. They're both also looked down upon because everyone knows future earnings growth will be meager at best. The banking industry matured years ago and most consumers aren't in the position to take on more debt.

That said, Canadian banks are almost the definition of a wonderful business. High barriers to entry prevent new competitors from eating into margins. Limited growth prospects means the banks pass on most of their income to shareholders. And with a yield this high, investors who patiently reinvest their dividends will beat most others as the years tick by.

The story is easy to wrap your head around at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB): It's a well-run utility and pipeline company serving millions of customers in Central Canada. Customers heat their homes, you get a dividend—and that's a dividend that hasn't been cut in the past 62 years.

The **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) is easy to disregard because of the stock's tiny yield, but that would be a mistake. In addition to paying a regular dividend, CN also buys back boatloads of its own shares. If you were to include share buybacks in the stock's yield, this name would pay out nearly 5%!

Finally, **BCE Inc.'s** (TSX:BCE)(NYSE:BCE) story hasn't changed in years: telecom companies own a lucrative oligopoly, but the threat of a fourth carrier hovers overhead. What also hasn't changed is that investors who realize the competition threat is largely overblown are being rewarded with piles upon piles of money. It has never paid to bet against Canada's Big Three telecom companies, and there's little reason to assume that will change.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:CNI (Canadian National Railway Company)
3. NYSE:ENB (Enbridge Inc.)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BCE (BCE Inc.)
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