Retirees: Use These 3 Tricks to Supercharge Your Income

Description

Although interest rates have crept up over the last year, getting income from traditional sources is still no easy task.

Take GICs, for example. In the 1980s and 1990s, it was common for retirees to have their entire net worth in various GICs, guaranteed investments that paid anywhere from 5% on the low end to 15% on the high end. Yes, folks in the 1980s could really count on those guaranteed returns.

These days, banks make you lock up your savings for five years to get any more than 3% annually. Government bonds, which come with a similar guarantee of principal, offer even worse yields. So investors are forced to improvise.

Most are turning to the stock market, which has thousands of different dividend-paying securities to choose from. Some offer enticing yields of 6% or even more, but many pundits tell investors these payouts are riddled with risk. They could be cut at any point, taking a retiree's standard of living down with it.

Here are three proven ways you can increase your income.

DRIP to success

Many investors — dividend-growth investors, specifically — love dividend reinvestment plans (DRIPs). They use them to set their investments on autopilot, using their dividends to automatically acquire new shares. Most brokerages will allow customers to set up DRIP programs for free, too, which saves money in the long run.

There's another advantage to using DRIPs that is rarely talked about. Many companies offer their investors a bonus for taking their dividends in the form of new shares. This frees up cash that management can then put to higher use.

DRIPs are most common in the real estate investment trust sector today. **Northwest Healthcare Properties REIT** (TSX:NWH.UN), a company that owns hospitals, seniors living facilities, and healthrelated office buildings in nations like Canada, Brazil, Germany, and Australia, offers a fairly typical DRIP for the sector, giving investors a 3% discount if they take their distributions in additional units.

3% doesn't sound like much, but it does make a bit of difference. The trust yields 7.9% today; an additional 3% boost increases the payout to 8.14%. These new shares can then be sold to pocket the income or simply held. The latter ensures an ever-increasing income stream even if the underlying dividend stays the same.

Northwest Healthcare Properties also has outstanding growth potential, as I highlighted in this article.

Focus on sustainable high yields

As previously mentioned, many investors are nervous about buying high-yield stocks. They're convinced the dividend is just waiting to be cut.

But there are dozens of great stocks in Canada with sustainable high yields. They're not that hard to find.

Take **Brookfield Renewable Partners LP** (TSX:BEP.UN)(NYSE:BEP), which is one of the largest owners of renewable power generating assets in the world. Its expanding portfolio consists largely of hydroelectric assets today, with a smattering of solar and wind-powered facilities. In total, Brookfield owns approximately 17,400 MW worth of energy generation assets.

These assets are located in areas with regulated power markets, ensuring steady cash flow for Brookfield plus an annual inflation adjustment. This translates into a great yield — the payout is 6.8% today — with a little growth built in. Brookfield's management figures the company can grow distributions from 5% to 9% annually.

Preferred shares

Preferred shares are a hybrid security that's a little bit equity and a little bit bond. They offer steady dividends that are higher up the food chain than common shares, but are junior to debt repayments. Many of Canada's top companies issue preferred shares, which come with the big advantage of being taxed as dividends, while bond payments are taxed as interest.

Some offer much better yields than their parent company. Take the **George Weston Limited** (TSX:WN) preferred shares as an example. The company's common shares pay $0.51 each quarter, which works out to a little over 2% annually. But the preferred shares — there are four different varieties, each with slightly different terms and payouts — average approximately 5.5%.

An investor who buys the preferred shares just got themselves close to a 200% raise versus the common shares, although the preferreds don't offer as much upside potential. But for a retiree who's just concerned with income, capital gains aren't so important.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)
4. TSX:WN (George Weston Limited)

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