How Much Passive Income Do You Need to Generate From Your TFSA in Retirement?

Description

The goal of setting aside cash in your TFSA is to get to the point where the return on the savings is enough to cover your living expenses.

Most Canadians probably need less money in a self-directed retirement fund than they think is required.

Why?

According to the Canadian government, the average CPP payout for someone starting to collect at age 65 in January 2019 was $723.89 per month. OAS payments depend on a number of factors, but the government says it would be as high as $601.45 per person on a monthly basis regardless of marital status. Every situation is different, so let's assume you will receive at least $1,000 per month from CPP and OAS payments. If you add in some form of company pension, say another $800 to be conservative, you would have $1,800 per month or $3,600 for a couple at age 65.

For income requirements, $4,800 per month is likely a reasonable number for an average couple. Based on the above assumptions, you would have to come up with an additional $1,200 per month.

One popular way to meet that goal is to own high-yield dividend stocks inside your TFSA, but you have to be careful which stocks you buy.

Above-average yields might indicate the market thinks a company will have to cut the payout due to current or expected cash flow issues. That's certainly a risk, and investors have to determine if an extra 2-3% yield is sustainable compared to other stocks that might have more secure distributions as well as the potential for better dividend growth.

However, the TSX Index is home to some companies that have growing payouts and provide above-average yield. Let's take a look at two stocks that would be examples of that today.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) has raised its dividend in each of the past 23 years, and investors should see the steady trend continue. The company raised the payout by 10% in 2019 and is targeting another 10% increase next year.

Beyond 2020, the company anticipates distributable cash flow will grow by 5-8% annually. This should support ongoing dividend increases in the same range.

Enbridge can self-fund its current $16 billion capital program, so investors shouldn't have to worry about the risk that the company will issue new shares to raise the funds needed to cover the distributions.

Some pundits are concerned about growth opportunities amid pubic and political opposition to major pipeline projects. Enbridge cancelled its Northern Gateway project in Canada and is having trouble getting the U.S. leg of its Line 3 Replacement project completed.

Overall, the company is large enough that smaller organic opportunities and tuck-in acquisitions should be adequate to keep the company's revenue and cash flow growing.

Enbridge currently provides a yield of 6.5%.

Power Financial

Power Financial (TSX:PWF) is a holding company with businesses operating in the wealth management and insurance sectors. Its subsidiaries include a number of familiar Canadian names, including IGM financial, Great-West Life, and London Life. Fintech disruptor Wealthsimple is also part of the portfolio. In addition, Power Financial has a stake in a European holding company, Pargesa, which owns positions in a basket of the continent's top global stocks.

The company reported strong results for 2018, and management is positive on the outlook over the medium term. The board approved a $1.65 billion share buyback and raised the dividend by 5% this year.

The current payout provides a yield of 6.2%.

The bottom line

A 45-year-old couple currently has up to $127,000 in TFSA contribution room. That's expected to increase by at least $6,000 per year per person over the next 20 years for a total of at least $247,000.

Assuming they max out the contributions and invest the funds in stocks, such as Enbridge and Power Financial, that provide a 6% yield, they could easily make their extra $1,200 per month and still have the principal available for emergencies.

Every person's situation is different, but the key message is that you might not need to save as much money as you thought, and getting to the necessary fund size could be less painful than expected.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/07/04
Date Created
2019/06/13
Author
aswalker