Why Dividend Stocks Should Be an Important Part of Your Retirement Plan

Description

If you're planning for your retirement, you know that there many different variables that you need to account for. From how much benefits you'll receive from the Canadian government to what your overall savings will be at that point in time, there's plenty of noise that can complicate your plans.

One of the biggest factors is age. And if you're in good health and end up living to 100, that could derail everything, as savings are likely to run out well before then, unless you've got a very good nest egg or have budgeted for a very long retirement. One way to mitigate that risk is to include dividend stocks in your plan.

How dividend stocks can help

Since dividend stocks pay you on a recurring basis, they can be a great way to provide you with the cash you need on a regular basis to help pay your bills, even if your other sources of income have long run out.

For example, investing in a blue-chip stock like **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) could be a great way to inject some recurring cash flow into your portfolio. Not only is the company a very stable one to invest in, but it also pays a great dividend.

Currently, Rogers pays its shareholders a yield of around 2.9% per year, giving investors a stable source of cash flow without the concern that the payout is too high or that the company's future may be in doubt.

An investment of $100,000 into Rogers would be able to generate an extra $2,900 every year for you. That's the equivalent of about an extra $242 every month. It may not be enough to cover all of your expenses, but the more you invest, the more in dividend income you could earn. And if the dividend increases, that means your income from the stock will rise as well.

If you're hoping to cover all of your expenses by way of dividends, you'd need to invest a whole lot more into Rogers or opt for a higher-yielding stock, which could be a lot riskier. Dividend income can be a key contributor to your overall savings plan, but it may not be appropriate to depend entirely upon it.

However, one way you can try and maximize your income is by putting as much of those dividend stocks into a TFSA as you can. Since the dividend income won't be taxable inside of a TFSA, you'll be saving the taxes on those amounts and stretching your dollars even further in the process. And if things go well, you could also benefit from a rising stock price as well should you decide to cash out entirely.

Bottom line

Retirement planning can be very complicated, and the more options that you have at your disposal, the better off you'll be in the long term. Dividend stocks can play as large or as small a role as you need them to play in your retirement. And with many options out there, you can diversify your holdings to help ensure you aren't exposing your portfolio to a lot of risk in the process.

The biggest benefit of owning dividend stocks is that, assuming they continue paying dividends, you'll continue to get paid as long as you hold the shares. They can be a very stable source of income for you and help bridge any shortfalls in your retirement.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RCI (Rogers Communications Inc.)
2. TSX:RCI.B (Rogers Communications Inc.)

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