Retirees: 2 High-Yield Stocks to Boost Tax-Free Pension Income

Description

Canadian seniors are searching for ways to increase the returns they get from their savings while avoiding an increase in taxes.

A popular strategy involves holding dividend stocks inside a TFSA. The distributions can be paid out without being taxed, and pensioners who are collecting OAS don't have to worry about the income-triggering clawbacks.

Let's take a look at two high-yield stocks that might be attractive picks today.

Inter Pipeline

Inter Pipeline (TSX:IPL) pays its dividend monthly, which is helpful for income investors who want to receive regular distributions to complement their other pension payouts.

The company's cash flow is adequate to meet the distributions. The payout ratio in the most recent quarter was 73%, so there is ample room for an increase or a buffer against a cash flow dip.

IPL is building a $3.5 billion polypropylene plant. The Heartland Petrochemical Complex will turn propane into plastic and is expected to go into operation in late 2021. Once production begins, IPL expects the facility to generate average annual EBITDA of $450-500 million. That should help support ongoing dividend growth.

IPL has raised the dividend in each of the past 10 years. The current distribution provides a yield of 7.7%.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is Canada's fifth-largest bank. The company has a reputation for being a risky bet compared to its larger peers, primarily due to some big hits it took on bad bets in the past. CIBC had to take billions of dollars in writedowns during the financial crisis as a result of its large exposure to subprime mortgages.

Since then, management has focused on lower-risk activities, although the bank remains most exposed to the Canadian housing market.

Investors shouldn't have to worry about that being an issue. CIBC's capital position is solid the loan-to-value ratio on uninsured mortgages is low enough that house prices would have to tank before the company risks taking a big hit.

Interest rates are not expected to rise in the near term, and falling bond yields are giving the banks the ability to offer lower rates on fixed-rate mortgages. This is providing a new tailwind to the housing market while helping existing homeowners renew at affordable rates.

CIBC has diversified its revenue stream in the past couple of years through more than US$5 billion in investments in the United States. The company's purchase of PrivateBancorp provides a nice platform to expand CIBC's presence in the segment, and additional deals focused on wealth management could be on the way.

CIBC remains very profitable, and the board just raised the dividend when it reported fiscal Q3 2019 results.

The stock is reasonably priced today, and investors who buy now can pick up a 5.3% yield.

The bottom line

IPL and CIBC both pay attractive dividends and should be solid picks for an income-focused TFSA portfolio.

Investors who split a new investment between the two stocks can pick up an average yield of 6.5% with a shot at some nice upside in the stock prices in the coming years.

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