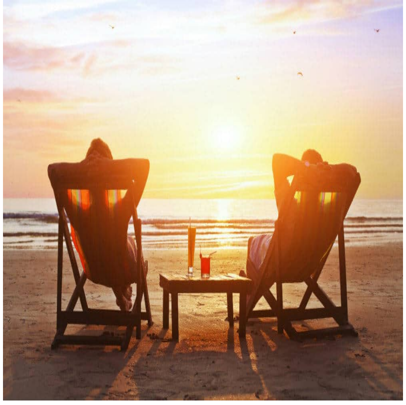

Retirees: How to Turn Your TFSA Into a Second Pension

Description

Many soon-to-be retirees discover that their pensions are much skinnier than expected after decades in the workforce.

Many contemplate delaying retirement and OAS payments by a few more years to be able to enjoy a somewhat more comfortable retirement lifestyle. And with bond yields as low as they are, it's tough to get the risk-free monthly income supplement needed to sustain the retirement you've been dreaming of.

Nobody wants to live a frugal retirement where they have to stick with a strict budget. Most to-be retirees see themselves enjoying their golden years on cruises or at the beach while being able to spoil their grandchildren rotten without hesitation.

While your pension may not be able to finance such a comfortable retirement lifestyle, you shouldn't feel obligated to work into your seventies. You've likely got a sizeable nest egg that you can turn into a second source of passive income to supplement your pension and get your monthly income at a level that'd allow for a comfortable lifestyle.

As a retiree, you can't afford to take significant risks anymore. But the biggest risk, I believe, is refusing to take any risk and settling for the sub-par yields that are offered by various "risk-free" securities, including bonds, GICs, annuities, and the like.

While you could use "risk-free" assets as a safe store of your wealth as you spend the principal over time, you do run the risk of running out of money at some point down the road.

Nobody knows how long they're going to live, so it's a better idea to leave your principal alone and still continue to grow your wealth with at least a portion of your portfolio devoted to equities and REITs.

Consider **Emera** (TSX:EMA) stock as an example of a bond proxy that could allow you to get a much larger yield with arguably a lower degree of risk.

You always hear financial advisors touting that higher reward comes with higher risk, but in the case of defensive dividend stocks with highly predictable bond-like cash flow streams, it's possible to get a higher return with a lower degree of risk over prolonged periods.

Contrary to popular belief, Warren Buffett notes that bonds can be riskier than stocks with a long-term time horizon.

Over time, bonds get riskier, and stocks become less risky. Bond prices are at the mercy of interest rates, and if rates unexpectedly rise, your bond funds could be subject to capital losses. In essence, bonds aren't exactly as risk-free as they're labelled, which why Buffett believes they should come with a warning label.

With Emera, you're getting a 4.4% dividend yield, which you'd be hard-pressed to come by in the world of fixed-income securities. Also, you're getting a high likelihood of low-to-mid-single-digit raises to your payout every single year, recessions included.

What's enticing about Emera is not just the size of the upfront yield and the magnitude of dividend growth you'll get, but the stability of the dividend and the underlying stock.

The company is focusing on growing its regulated operations, and with that comes steady cash flows that allow for ridiculously low levels of volatility, making the stock a perfect candidate for a retiree's TFSA passive income fund.

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