Retirement Savers: 2 Incredibly Easy Ways to Boost Your RRSP Payments

Description

Are you a retirement saver looking for a consistent source of passive income?

Building up assets in an RRSP is one way to do it.

Offering generous tax deductions, RRSPs let you build up large amounts of savings. Investments held in an RRSP also grow tax-free until withdrawal. This means that RRSPs give you a double whammy of tax-savings: more after-tax income to save *and* tax-free room to grow.

However, just having an RRSP isn't enough. If you save $10,000 a year, you'll save just $300,000 in 30 years–hardly enough to retire on. In order to maximize your RRSP payouts, you'll need to choose your investments wisely. Not only that, but you'll have to invest in a way that maximizes income. Here are two ways to do that.

Buy dividend growth stocks

If you're investing with the goal of generating income, it makes sense to buy dividend stocks. Although you can earn income by periodically selling shares, that strategy depends on whether the markets are up or down, which isn't a good position for a retiree to be in. So if you're investing for retirement, dividends are where it's at.

More specifically, dividend *growth* is where it's at. A high present yield can be deceiving: a 5% yield based on trailing earnings means nothing if the payout gets cut next quarter. So instead of buying based on yield, you'll want to buy based on where the yield is likely to be in the future.

Fortis Inc (TSX:FTS)(NYSE:FTS) has historically been an excellent stock for this strategy.

With 46 consecutive years of dividend increases, it has reliably increased shareholder income year in and year out. As a utility, Fortis enjoys an ultra-stable revenue stream due to the indispensability of heat and light.

Additionally, the company is highly focused on growing its business. Over the next five years, Fortis is expected to make $18.3 billion in capital expenditures.

These include infrastructure upgrades that can prevent outages, and new infrastructure that can help the company serve more customers. Because of the positive revenue nature of these expenditures, the company expects to increase its rate base once they're done.

Fortis shares yield about 3.5% now, and management has pledged to increase the dividends by 6% annually over the next five years. Assuming the capital expenditure project goes well, this should be a solid stock for generating income in the years ahead.

Reinvest dividends when you're young — start letting them flow out a few years before retirement

Once you've settled on what dividend stocks you're going to buy, the next thing you can do to boost your income is handle your dividends the right way.

Generally, when you're younger, it's best to reinvest your dividends, because this adds to your position and amplifies your return. Then, as you approach retirement age, you can let the dividends flow out.

The rationale behind this is simple: when you're younger, you have the time to wait out market downturns, so you should focus on building up assets even if they dip from time to time.

When you're older, however, income becomes more critical, so sometime in the last five to 10 years before you retire, you can start letting the income from your shares flow out as cash. That way, you'll have a solid base of cash to withdraw from your RRSP even if the market takes a dip.

CATEGORY

1. Dividend Stocks
2. Investing

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