TFSA 101: How Retirees Can Earn an Extra $635 Per Month in Tax-Free Pension Income

Description

The goal in retirement is to maximize the amount of earnings you can generate from various sources while minimizing tax payments.

Income from company pensions, CPP, OAS, RRSP withdrawals, and RRIF payments all count toward earned income for the year and are taxed accordingly. Income from rental properties or a part-time job also get rolled into the mix.

In some cases, the sum of all the earnings can put a senior above the OAS clawback threshold, which would trigger a 15% pension recovery tax on all income about that level. In the 2019 tax year, the magic number is $77,580.

One way to boost income without worrying about giving more money to the tax authorities is to generate it in a TFSA. All earnings paid out of the TFSA are tax-free, and they are not used by the CRA when calculating net world income.

Seniors currently have as much as $63,500 in TFSA contribution room. This would give a couple $127,000 in space to invest in dividend stocks, bonds, or GICs to generate tax-free income.

Falling interest rates and plunging bond yields are making fixed-income alternatives less appealing. As a result, many investors are turning to quality dividend stocks to boost returns on their savings.

Let's take a look at two companies that offer attractive yields today and have dividends that continue to increase at a steady rate.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) raised its dividend by 10% in 2019. An increase of 7-10% is expected in 2020 and based on anticipated growth in distributable cash flow the payout shouldincrease at least 5% per year afterwards.

Enbridge drives revenue growth through organic projects and acquisitions. The company's current $19 billion capital program can be funded through internal means and should support cash flow growth in the medium term.

Trying to get new mega-projects approved remains a challenge for the company, but Enbridge is large enough that it is finding attractive tuck-in opportunities throughout its oil, natural gas, and gas liquids infrastructure network.

The company spent $37 billion in 2017 to buy Spectra Energy. Another deal that size might not be in the cards for some time, but consolidation in the energy infrastructure sector is expected to continue, and Enbridge is large enough to make strategic purchases that will add value for shareholders.

The stock appears reasonably priced, and investors who buy today can lock in a 6.1% yield.

Power Financial

Power Financial (TSX:PWF) owns a basket of insurance and wealth management companies in Canada. Many of the brands are familiar names, including Canada Life, Investors Group, Mackenzie Investments, Great-West Life, and Investment Planning Counsel. Power Financial is also a majority owner of Wealthsimple, the fintech disruptor that appeals to younger investors.

The various divisions are performing well, and Power Financial is doing a good job of looking after its shareholders. The company raised the dividend by 5% this year and spent $1.65 billion on share buybacks.

The stock trades around the middle of its range over the past year. Investors can currently pick up a 5.9% yield.

The bottom line

Enbridge and Power Financial pay above-average dividends that should continue to grow. An equal investment between the two stocks would provide an average yield of 6%.

That would generate $3,810 per year in tax-free dividends on a $63,500 TFSA portfolio. A retired couple could earn $7,620. That's an extra $635 per month!

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Date
2025/08/24
Date Created
2019/10/28
Author
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