TFSA Pension: How Retirees Can Earn $312 Per Month Tax-Free and Protect OAS Payments

Description

It's not easy being a Canadian senior these days.

Living costs are increasing all around us, and while the government says inflation is just 2%, it sure feels like things are getting more expensive at a greater rate.

Fuel rarely drops below $1 per litre any more, even as oil prices remain weak. A meal at a restaurant is getting out of control, and even daily groceries are crazy expensive if you don't catch them on sale.

Homeowners are facing rising property taxes, and in some parts of the country, the electricity bills are insane. Renters, meanwhile, are having a difficulty finding good housing at affordable rates.

Retirees with good company pensions are probably doing okay when the payments are combined with CCP and OAS, but the Old Age Security starts to get clawed back once net world income hits a minimum threshold. That amount is $77,580 for the 2019 income year.

Hitting that limit isn't hard, and some pensioners might actually require more money to maintain a comfortable living. This presents a challenge, as there aren't many options short of winning the lottery to get more cash without risking part of your OAS.

One way to boost income and not be hit with OAS clawbacks, however, is to generate the income inside a TFSA. Any interest, dividends, and capital gains are tax-free and the distributions you take are not counted toward your income.

Let's take a look at one top dividend stock that might be an interesting pick to get your TFSA income fund started.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure sector. The company transports nearly two-thirds of Canada’s oil exports that head to the United States and moves roughly 20% of all the natural gas that is consumed south of the border.

In addition, Enbridge is North America’s third-largest natural gas utility and has a growing renewable energy group that includes offshore wind developments.

The company gets nearly all of its earnings from regulated assets, meaning its cash flow should be both reliable and predictable. This is important for income investors who need to receive steady payouts.

Beyond 2020, Enbridge anticipates its distributable cash flow per share will grow by 5-7% per year. That should support ongoing dividend increases in that range.

The company has $19 billion in secured capital projects underway and expects at least $5 billion of annual capital growth beyond next year in addition to base business growth.

The board raised the dividend by 10% in 2019 and a similar hike should be on the way in 2020. The current payout provides a yield of 5.9%.

The bottom line

Enbridge should continue to be a solid pick for income investors and would be a good anchor stock for a balanced TFSA dividend fund.

A Canadian retiree would have as much as $63,500 in TFSA contribution space today. At a yield of 5.9%, this would generate annual tax-free earnings of $3,746.50, or about $312 per month.

Diversification is important, and the TSX is home to many top-quality dividend stocks that have long track record of dividend growth and rising share prices.

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