2 Top Income Stocks for Retirees to Buy Inside a TFSA

Description

Canadian seniors are constantly searching for ways to get better returns on their hard-earned savings.

This is especially true today after a slide in bond yields through much of 2019 has knocked down the GIC rates the banks are willing to offer. For example, a year ago, the best rate you could get for a five-year GIC was about 3.5%. Today, getting 2.5% is a challenge.

As a result, investors are turning to REITs and dividend stocks to generate more income. One way to do this and protect the payouts from the CRA is to hold the stocks inside a Tax-Free Savings Account (TFSA). Canadian residents have as much as $63,500 in TFSA contribution room. That means a retired couple could invest up to $127,000.

Let’s take a look at two stocks that might be interesting picks right now for an income portfolio.

RioCan

RioCan (TSX:REI.UN) is a giant in the REIT sector with a portfolio of properties in Canada that historically focused on the retail sector.

The regular reports of retail bankruptcies might make one think that buying a REIT that owns shopping malls might not be a great idea. It is true that some segments, such as department stores, have fallen on tough times, and RioCan has had to fill space vacated by big-name closures.

However, the company’s client base is quite diverse, with no single company accounting for more than 5% of revenue. In addition, demand for its top locations remains robust, and RioCan is able to find new tenants at higher average rental prices.

Management is working through a transition that will see RioCan sell up to $2 billion in non-core assets and use the proceeds to fund the ongoing mixed-use developments. The first buildings that combine retail and residential space are proving to be popular, and RioCan could build up to 10,000 residential units over the course of a decade.

The company has a strong balance sheet, and the distribution should be safe. RioCan's current payout of $0.12 per month provides and annualized yield of 5.3%.

Pembina Pipeline

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is a key player in the midstream segment of the Canadian energy sector with assets that range from natural gas gathering and processing to oil and gas liquids infrastructure. Pembina Pipeline also has logistics operations.

The company grows through a combination of organic developments and acquisitions. Pembina Pipeline has $3.2 billion in capital projects on the go and is also purchasing Kinder Morgan Canada and the U.S. portion of the Cochin Pipeline System for $4.35 billion.

Once the acquisition is complete, the board intends to raise the monthly dividend by 5% to $0.21 per share. The current payout of $0.20 provides an annualized yield of 4.9%.

The stock has enjoyed a nice rally since the end of August but still appears reasonably priced. Investors should see steady dividend hikes in the coming years.

The bottom line

RioCan and Pembina Pipeline pay attractive monthly distributions. An equal investment between the two stocks would provide an average yield of 5.1%.

A diversified approach is always recommended, and the TSX Index is home to many top-quality income stocks that investors can own inside a self-directed TFSA to generate reliable passive income.

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1. Dividend Stocks
2. Investing

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2. TSX:PPL (Pembina Pipeline Corporation)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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