Worried About Your Retirement? Here's How to Add an Extra $5,000/Year in Tax-Free Dividend Income

Description

Many Canadians are concerned about whether they'll have enough income during retirement, and that's a very valid issue, especially if your main source of income is going to come from payments from the government.

While the payments can provide some decent cash flow, on their own, they may not be enough for you to be able to live the life that you'd want to during your retirement years.

That's why it's generally a good idea to have an additional source of income to supplement those payments to help ensure that you aren't too reliant on the government.

And if you've built up savings over the years, you can use the capital that you have to help generate dividend income as opposed to burning through the cash as you need it.

The good news is that you don't have to take on much risk either, as there are plenty of good dividend stocks that pay high yields that can help generate a good stream of income for your portfolio. **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), for instance, is currently paying investors a dividend yield of 5%.

Not only is the bank stock a very stable investment to make, but the dividend is safe and it's one that investors can expect to increase over the years.

Five years ago, CIBC stock was paying investors $1.00 every quarter, and those payments have since increased to $1.44. That averages out to an annual increase of 7.6%.

At that rate of increase, it would take a little over nine years for dividend payments to double, just by holding shares of CIBC. It's not a bad deal, and a great way to add a relatively safe source of recurring income.

TFSA is a great way to shield those earnings

In order to further maximize your income from dividend stocks, putting your investments inside a TFSA can be a great way to prevent that income from being taxable.

In order to generate an extra $5,000 in dividend income every year, you'd need to invest $100,000 into CIBC shares today. And while that's more than the TFSA limit of $63,500, if you have a spouse or partner with whom you can jointly invest in the stock with sufficient contribution room, you could reach that threshold together.

By pooling your TFSAs and holding shares of CIBC, you could be earning a combined $5,000 in income every year, which would be tax-free.

While payments would be quarterly, that would average out to an extra $417 every month. Whether it's to help pay for groceries or other day-to-day expenses, it could go a long way in making your retirement years go a lot smoother.

What's best about the strategy is that you're not burning through the savings you've accumulated over the years. Instead, the capital you invest could grow over the years as well.

Bottom line

There can be a lot of uncertainty when it comes to planning for retirement, and by adding dividend income into the mix, you can help mitigate the risk that you won't have enough income or that you'll burn through your savings too quickly.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

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