CPP and OAS Pension Too Low: How to Increase Retirement Income and Avoid Paying More Tax

Description

Canadians entering retirement and those already receiving pension income are increasingly concerned they might not have enough money.

Why?

Carrying a mortgage into the golden years is becoming more common. This eats up a good chunk of monthly income that would otherwise be available to cover living expenses.

In addition, some people might not receive full OAS payments due to time spent outside the country during their younger years. You must live in Canada for at least 40 years after the age of 18 to qualify for the maximum Old Age Security Pension.

Canada Pension Plan (CPP) payments also depend on years of contribution and taking CPP early reduces the payment quite significantly. A person who starts collecting CPP at the age of 60 will receive 36% less than if they wait until age 65.

One way to get more money is to shift savings from taxable sources of investment income into a Tax-Free Savings Account (TFSA). The TFSA contribution limit is up to $63,500 per person. It will increase another $6,000 in 2020.

If the cash isn't parked in a taxable account, it might be sitting in assets that are not creating income and can be sold to free up the funds.

Any income generated inside the TFSA is not taxed and can be paid out tax-free. This is particularly important for seniors who are receiving OAS payments and might be at risk of being hit with pension clawbacks.

The best returns tend to be from dividend stocks. The TSX Index is home to many top-quality companies that have long track records of paying investors reliable and increasing distributions. Most pay quarterly, but monthly distributions are also available in some cases.

Let’s take a look one top dividend stock that might be interesting pick to start a TFSA income portfolio.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is one of those stocks investors can buy and simply forget about while they sit back and collect a steady stream of rising dividends.

The company gets most of its revenue from regulated utility businesses it owns in Canada, the United States, and the Caribbean. In total, Fortis has $52 billion in assets that deliver cash flow to support the dividend.

Growth comes from acquisitions and development projects. The company spent more than US$15 billion in recent years on purchases in the United States and is working through an $18.3 billion capital program.

The rate base is expected to increase significantly through 2023, which will support targeted annual dividend growth of about 6%. The board has raised the payout in each of the past 46 years, so the guidance should be reliable.

The current distribution provides a yield of 3.6%.

It appears that the Bank of Canada is done raising interest rates, and analysts are suggesting we could see a move to the downside in 2020. The U.S. Federal Reserve already cut rates three times in 2019.

Lower interest rates should be positive for Fortis. The company’s borrowing costs for funding projects should drop, freeing up more cash for distributions. At the same time, investors often shift funds to utility stocks with reliable dividends when they can’t get decent returns from GICs and other fixed-income investments.

Fortis is also a solid pick to use as a defensive play. The revenue stream should be recession resistant, and the stock is normally less volatile than the broader market.

The bottom line

A bit of planning and the use of the TFSA can help retirees earn extra income on their savings while avoiding additional taxes.

Fortis is just one example of a reliable dividend stock that might be an interesting pick.

A basket of top stocks could easily provide an average yield of 4.5%. This would generate and extra $3,127.50 per year on a $69,500 TFSA in 2020. A couple could earn $6,255.

That’s an extra $521.25 per month!

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aswalker