CPP and OAS Not Enough: A Top Dividend Stock to Help You Save $1 Million in Your TFSA Pension

Description

A recent survey revealed that nearly 90% of Canadians think food prices are rising faster than incomes.

They may be on to something.

The cost of beef rose 6.2% in November 2019 compared to November last year. October data indicated that fresh fruit and vegetables cost 7% more than 12 months before, and things didn't improve in November.

Another report came out in early October that predicts the average Canadian family will spend nearly $500 more on food in 2020.

Canada's overall inflation rate rose to 2.2% in November, up from 1.9% the previous month.

Pundits expect the trend to continue, meaning the cost of living in retirement could well be higher than people are anticipating. Relying on CPP and OAS payments to cover the bills might be risky.

As a result, Canadians are searching for ways to build another income source, and many are turning to the Tax-Free Savings Account (TFSA).

Unlike RRSP contributions that are taxed when withdrawn, any money earned inside a TFSA is tax-free and can be pulled out whenever you need to tap the funds. The distributions on dividend stocks, for example, can go straight into your pocket, and they are not counted by the CRA as income that could trigger a clawback of OAS pension payments.

Let's take a look at one top Canadian dividend stock that might be an interesting pick to start a TFSA pension.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility company with $52 billion in assets located in the United States, Canada, and the Caribbean. The divisions include natural gas distribution, power generation, and electric transmission.

The majority of the revenue generated by the assets is regulated, meaning the cash flow stream should be reliable and predictable.

Growth comes from a mix of acquisitions and developments. For example, Fortis spent nearly US$16 billion in recent years on takeovers in the United States. The integration of Arizona-based UNS Energy and Michigan-based ITC Holdings went well, and both businesses are performing as anticipated.

Fortis is now focused on its $18.3 billion capital program that will boost the rate base significantly through 2024. This is expected to increase cash flow enough to support average annual dividend hikes of 6% over the next five years. That's pretty good guidance, and investors should be comfortable with the outlook. Fortis has raised the distribution every year for more than four decades.

Investors who bought $100,000 worth of Fortis stock 20 years ago would now have $1.44 million with the dividends reinvested.

The share price tends to hold up well when the overall market hits a rough patch. This makes Fortis a popular defensive pick for an investment portfolio. People and businesses need to use natural gas and electricity regardless of what is going on in the international financial markets or geopolitical sphere.

The bottom line

The TSX Index is home to many top companies that have generated similar results for buy-and-hold investors, and the strategy of buying dividend stocks and investing the distributions in new shares has a successful track record.

Fortis should continue to be a solid pick as part of a balanced TFSA retirement portfolio.

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aswalker