CPP Pensioners: How to Boost Your Passive Income by 100% With Dividend Stocks and Your TFSA!

Description

With the average Canadian Pension Plan (CPP) payment being pinned at around $680 per month (it could be much lower if you opt to receive CPP benefits earlier), it's the responsibility of prospective retirees to supplement their pension with an income stream of their own, preferably through use of a Tax-Free Savings Account (TFSA).

For Canadians who've regularly been contributing and investing systematically in equities (and not timing the market by hoarding bonds!), one should now have enough principal to construct a TFSA-based tax-free income stream that could match, if not exceed one's potential CPP payments.

For the average CPP pensioner, you'd need north of an 8% yield to achieve $680 per month with $100,000 in principal. That's doubling the "4% rule," and although it seems aggressive, there are high-yield securities out there whose distributions (or dividends) are not at risk of a significant reduction or cut.

It's not always safety that you're trading off when you opt for a higher yielder. In some instances, it's growth potential that you're trading off, meaning lower-than-average capital gains that can be expected over prolonged periods of time. As a retiree, though, getting bigger monthly income should take precedence over capital appreciation potential, although dividend-growth potential should still be taken into consideration.

Consider one of my favourite covered call ETFs, **BMO Canadian High Dividend Covered Call ETF** (TSX:ZWC), which sports a massive 6.9% yield at the time of writing. For those unfamiliar with the covered call line of BMO ETFs, they essentially trade upside potential for income upfront through the use of an options strategy that's implemented by the fund managers.

Although one's downside is reduced from such a strategy, upside risk is introduced with a ceiling that caps upside potential.

For retirees and conservative income investors, though, the trade-off is more than worthwhile, and so too is the price of entry (0.72% MER).

ZWC collects dividends from its long positions and the premium income from covered calls goes on top of the dividend payments, allowing ZWC to sport an even higher yield, providing investors with a bit more downside protection.

With such investment products readily available to Canadians, there's never been a better time to give oneself a raise with a higher yield without raising one's risk. The constituents within the ZWC are hand-picked not only for their handsome yields but also for their dividend safety.

In essence, ZWC has the "safest" near-7% yield out there and can act as a one-stop shop for those seeking a second pension after hanging up the skates.

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