TFSA Pension: A Top Income Stock Yielding 5% for Retirees

Description

Canadian retirees are searching for ways to put additional money in their pockets.

Why?

The official government stats say inflation is just 2% per year. That should be reasonable to handle, especially when CPP and OAS payments are adjusted to cover cost of living increases according to changes in the Consumer Price Index (CPI).

However, the funds somehow don't appear to go as far as they should. Aside from the average cost of a set basket of goods and services the government measures, there are a lot of expenses that might be new each year that retirees have to pay or are not part of the CPI calculation.

For example, some people can no longer do regular maintenance and repair work around the house. Getting a cleaner in once a week isn't cheap — neither is hiring someone to clear the snow or remove leaves from the eavestroughs.

Securing insurance to go on vacation outside of the country also gets more expensive as we get older.

As a result, many retirees need more money to keep their lifestyles on track. One option that has become popular for generating additional income is to hold dividend stocks inside a TFSA.

The distributions are not taxed inside the TFSA and the withdrawals you make are not counted as income toward any potential OAS clawbacks.

Let's take a look at one reliable dividend stock that might be a good pick to start the TFSA income fund.

BCE

BCE (TSX:BCE)(NYSE:BCE) is an ideal stock for income investors.

The company is a leader in its industry and the nature of the Canadian communications sector provides BCE with a wide moat.

How?

Competition exists, but all the key players are making good money. Discussions around enabling foreign competitors to enter have surfaced from time to time, but most international telecom giants simply wouldn't be bothered.

Canada is so big that it would cost billions of dollars to build out the required network infrastructure. In addition, the entire country only has a population roughly equal to that of greater Tokyo, meaning the potential revenue stream isn't that great.

The entry cost would be high and a new entrant would have to battle with the established companies already providing phone, internet, TV, cable, and mobile services across the country.

BCE continues to grow revenue at a slow and steady pace. Adjusted EBITDA margins are healthy and the business generates roughly $1 billion in free cash flow every quarter.

The board raises the dividend on a regular basis, with increases around 5% per year. Free cash flow is expected to rise 7-12% in 2019, so a decent dividend hike should be on the way next year.

The current distribution falls within the company's policy of paying out 65-75% of free cash flow and offers a yield of 5%.

Interest rates are not expected to increase in Canada in the near term. In fact, the central bank will likely make the next move a cut.

This bodes well for BCE, as it reduces borrowing costs and makes the stock more attractive to income investors who can't get the returns they need from fixed-income alternatives.

The bottom line

BCE is top-quality dividend payer with a reliable and above-average yield. If you are searching for a stock to put in your TFSA income fund, BCE deserves to be on your radar.

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