TFSA Pension: How to Turn $69,500 Into a Tax-Free Income Stream!

Description

For most Canadians nearing retirement age, there are three big pension benefits to look forward to:

- CPP
- OAS
- Employer-sponsored pensions.

If you're one of the few who still has the last item on that list, consider yourself lucky. According to Statistics Canada data, private sector defined benefit pension plans have been in decline since the 1990s and, if present trends persist, will be extinct by 2026.

What does that mean for retirees?

That they need to take it upon themselves to build their own "pensions" — namely, by using RRSPs and TFSAs. By building up dividend stocks in registered accounts, you can establish an income stream that will pay you throughout your golden years. While most discussion of personal pensions revolves around RRSPs, the TFSA deserves special attention, since it's the only tax-free vehicle that remains tax-free when you withdraw the funds.

With that in mind, here's a simple strategy to turn your TFSA into a tax-free personal pension.

Max out your TFSA contribution room

Coming in at just $69,500 for those who were 18 or older in 2009, the total available amount of TFSA contribution room is small. That makes it all the more important to max it out. The sooner you max out your TFSA, the more tax-free growth you can enjoy.

Once you have maxed out all of your accumulated contribution room, you should also make sure to take advantage of the extra room that opens up each year. After committing to doing that, you can move on to picking stocks for your TFSA.

Buy dividend-growth stocks in your TFSA

In general, it's best to hold stocks, as opposed to cash or even bonds, in your TFSA. The reason is that the TFSA has no benefits if you don't realize a gain in the account. Unlike an RRSP, you don't get a tax deduction for stashing money in a TFSA. So, you really need to realize big gains or dividends to make the account worthwhile.

One great stock for doing that is **Enbridge** (TSX:ENB)(NYSE:ENB). With a 6.21% yield, it can make a great addition to a well-diversified TFSA portfolio.

Enbridge has grown tremendously over the years, having increased its net income from $250 million to $2.8 billion in the course of four years. Not only that, but it has two big growth projects in the works that could take it even higher.

Enbridge's Line III replacement and Line V tunnel have the potential to add hundreds of thousands of barrels a day of oil transportation capacity to the company's already impressive infrastructure. If that happens, expect ENB shares to reward investors handsomely.

If you buy Enbridge today, you'll get a 6.21% yield on your shares. But that's not even the full story. Enbridge management has increased the stock's payout every year over the past five years. This year, the dividend increase was 10%. So, if present growth rates continue, you may expect an even bigger yield in the future on this already big-yielding stock.

Of course, you should never bet the horse on just one stock. While getting $4,315 a year in dividends on Enbridge alone might seem tantalizing, an individual stock should only be one component of a well-diversified portfolio. In addition to Enbridge, you should make sure your TFSA has other stocks, along with diversified ETFs like the **iShares S&P/TSX 60 Index Fund**.

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