TFSA Income Investors: 3 High-Yield Stocks to Boost Pension Earnings and Protect OAS Payments

Description

Canadian retirees are facing some financial challenges these days.

The official inflation rate is about 2%, but many people would argue it feels like their expenses are soaring much faster. Housing costs have risen significantly in most major markets, with rents rising due to reduced affordability of homes and condos.

Retirees who own their properties are still being hit with higher utility costs and increased property taxes. In addition, filling up the car isn't cheap, despite low oil prices, and travel insurance rates don't drop as we get older.

Ontario residents are particularly concerned, as the recent OHIP changes eliminated out-of-country health coverage as of January 1, 2020.

Food prices are set to increase by 2-4% in 2020, according to a report that came out in December from Dalhousie University and the University of Guelph.

Government pensions, such as CPP and OAS, are increased each year to match the Consumer Price Index (CPI) inflation rate. This is the average cost increase of a typical basket of goods and services.

The CPP increase for 2020 is 1.9%. Regarding OAS, the changes are calculated quarterly. The OAS payment did not increase for the January to March 2020 period.

The trick for retirees is to find a way to increase income without being pushed into a higher tax bracket. Those receiving OAS payments have to worry about the CRA's pension recovery tax. Any net world income earned above the minimum threshold triggers a 15% OAS clawback. The tipping point for the 2020 tax year is net income of $79,054.

One option for boosting income is to own dividend stocks in a Tax-Free Savings Account (TFSA). The distributions are not subject to tax inside the TFSA and are not counted towards net world incomewhen pulled from the account.

Stocks carry risk, but GIC rates barely cover inflation.

Let's take a look at three stocks that might be interesting high-yield picks right now for a TFSA income portfolio.

CIBC

Canadian Imperial Bank of Commerce offers a dividend yield of 5.3%.

CIBC is perceived as a riskier bet than its larger peers, but the bank is well capitalized and remains very profitable. The board kept the dividend steady during the Great Recession, so the payouts should be safe in the event the stock market hits another downturn.

IPL

Inter Pipeline is a niche player in the Canadian midstream energy infrastructure sector. The conventional oil and oil sands pipelines generate steady revenue. Cash flow from the gas-processing business can be more volatile.

IPL is considering the sale of its European storage business to help fund its capital projects in Canada. The $3.5 billion Heartland Petrochemical Complex is scheduled for completion in late 2021.

IPL's dividend provides a yield of 7.75%. The average payout ratio through the first nine months of 2019 was about 80%, so the distribution should be safe.

Any news of a sale of the European operations would likely send the stock price higher.

BCE

BCE is a long-standing favourite among dividend investors. The company has a steady track record of raising the payout, and that trend should continue in line with higher free cash flow.

BCE enjoys a wide moat and has the capacity to invest in new technology and network upgrades to ensure it maintains its leadership position in the Canadian communications industry.

Investors who buy today can pick up a 5% dividend yield.

The bottom line

Owning a balanced portfolio of reliable dividend stocks inside a TFSA is one way Canadian retireescan increase income without putting their OAS pensions at risk.

Diversification is important, and the **TSX Index** has many top stocks that pay attractive and growing dividends.

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