Retirees: Beat Inflation by Buying Dividend Stocks!

Description

Baby boomers are worried about outliving their money … and their concerns have some basis.

That's the conclusion of a **Royal Bank of Canada** study, which found that most Canadians don't have the savings they think they'll need to retire comfortably.

According to the study, retirement-age Canadians think they need $949,000 for their retirement, but only have $674,000 saved — a $275,000 shortfall. That's a big enough concern as it is. However, it gets even worse when you factor in inflation. Most Canadians' retirement plans don't account for the increased costs they're likely to experience over the course of their lives. Unfortunately, with the average Canadian retiring at age 63 and living until about 82, those increases are likely to be substantial.

The good news is, if you're a Canadian retiree concerned about outliving your money, you have one excellent option to combat declining real wealth. A type of investment that not only spares you having to spend your savings but also provides income that grows faster than inflation. Much better than bonds, this type of investment provides the perfect mix of growth and income. And it's already driving much of the income you get from CPP and OAS.

Dividend stocks

Dividend stocks are the perfect investment vehicles for retirees who want to beat inflation. Like all stocks, they offer the potential to watch the value of your holdings increase over time. However, dividend stocks have the unique feature of *growing cash income*. Like bonds, dividend stocks make cash payouts. Unlike bonds, their payouts may increase over time — often significantly more than inflation. Shares of **Alimentation Couche-Tard**, for example, have a five-year dividend-growth rate of 27%, which beats inflation by orders of magnitude. Holding shares in a company like that could easily provide income that leaves inflation in the dust and provides the foundation for a comfortable retirement.

However, you don't even need to pick stocks to take advantage of rising dividends. If you don't feel comfortable with the risk associated with individual stocks, you can easily buy an index fund and lower your risk substantially. Index funds are pooled investment funds based on common market indices, providing nearly guaranteed market-average returns. Because they have built-in diversification, they minimize risk, which is perfect for retirees who can’t afford major losses.

One great fund to consider

One great index fund for Canadian retirees to consider is **iShares S&P/TSX 60 Index Fund** (TSX:XIU). Based on the TSX 60 — an index of the 60-largest publicly traded companies in Canada — it provides income, diversification, and low fees, all in one package.

Based on the dividends paid in the last 12 months, XIU has a dividend yield of 2.8%, meaning you get $2,800 back in cash annually for every $100,000 you invest. The fund is mainly comprised of large-cap Canadian banks, energy stocks, and utilities, which tend to increase their payouts over time. So, the fund provides the potential for growing income.

The fund’s diversification is considerable, being based on 60 large-cap Canadian stocks. Not only does diversification reduce risk in itself, but XIU’s focus on large caps also helps mitigate risk compared to funds that hold stock in smaller companies.

Finally, XIU has very low fees, with all the combined costs coming in at just 0.18% of fund value each year. That’s small enough that you probably won’t notice it and a very reasonable price to pay for growing investment income in retirement.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/09/15
Date Created
2020/02/03
Author
andrewbutton