RRSP Investors: How Top Dividend Stocks Can Help You Retire Rich

Description

The deadline for RRSP contributions for the 2019 tax year is fast approaching, and that has Canadian savers looking at potential top picks for their self-directed pension funds.

Contributions made to the RRSP can be used to reduce taxable income. This can be a big deal for people who find themselves in the higher marginal tax brackets. For example, the combined federal and provincial tax rate in Ontario is more than 43% for every dollar of net income above $95,259. A $10,000 RRSP contribution by someone with income above $106,259 would reduce taxes payable by more than $4,300.

Many people take the difference they would have paid to the CRA and put the money in a TFSA.

Other benefits can also be achieved. Couples can use RRSP contributions to reduce net family income to boost child-care benefits and certain tax credits, depending on where they live.

Investments held inside the RRSP can grow tax-free. This means the full value of dividends can be used to buy new shares, taking advantage of a powerful compounding process.

You pay tax on funds that are withdrawn from the RRSP. The goal, however, is to be in a lower marginal tax rate when you pull the money out in retirement than where you were when the original contribution was made.

Let’s take a look at one top dividend stock that appears cheap today and should be a solid pick for a balanced RRSP portfolio.

Suncor

Suncor Energy (TSX:SU)(NYSE:SU) trades at close to $40 per share right now compared to $45 in the middle of January. The stock price topped $55 at one point in 2018.

The recent slide in oil prices is due to concerns the new coronavirus will hit global economic growth and slow oil demand, especially in China. Time will tell how large the impact will be, but the steep drop in the price of WTI oil in the past few weeks might be overdone.

Despite the turmoil, Suncor is capable of riding out downturns and can actually benefit when the market is weak. The company has a track record of making strategic acquisitions during tough times, and its downstream refining and retail businesses can see margins surge when input costs fall.

The board raised the dividend by nearly 17% in 2019 and another generous increase should be on the way in 2020. Suncor also increased its share-buyback targets for the current year. At the time of writing, the stock provides a yield of 4%.

New pipeline access to the United States and global markets should eventually be available, as the Keystone XL and Trans Mountain projects appear to be moving forward, albeit slowly. This would enable Suncor to increase output and boost revenue. The company already gets WTI or Brent pricing for the bulk of its production due to advantageous access to existing pipelines, offshore production, and the use of rail cars to ship product.

Energy companies are unpopular, and the advancements of battery technology are helping replace fuel-guzzling vehicles. The transition to green energy is important for fighting climate change, and oil producers will have to adapt. That said, the world will continue to use oil for many years.

The bottom line

Suncor pays an attractive dividend, and the stock appears oversold at the current level.

Long-term holders of the shares have done well. A $10,000 investment in Suncor 20 years ago would be worth more than $70,000 today with the distributions reinvested.

The TSX Index is home to several top dividend stocks that have generated great returns and should also be considered for a diversified RRSP portfolio.

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