Retirement Planning: Use Your TFSA to Maximize Pension Benefits and Earn up to $3,000 Monthly Tax-Free

Description

Tax-Free Savings Accounts (TFSAs) were introduced in 2009 to incentivize Canadians to save more by providing a tax-sheltered investment vehicle where investment income, including capital gains and dividends, is not treated as taxable income. While many Canadians treat their TFSA as a savings vehicle, the accounts are increasingly being recognized as an important retirement planning tool.

Their tax-sheltered nature means that not only is the corrosive impact of taxes on investment returns removed, but they can be used to create a tax-free income stream that won't negatively affect other retirement benefits. The only drawback is the amount that can be contributed annually is limited, making it important to maximize your contributions as soon as possible. Since being introduced, the cumulative contribution limit, or maximum amount that can be added to an account by an eligible Canadian who has never contributed, is $69,500.

The strategy

An often-overlooked approach for using a TFSA to fund a tax-free income stream in retirement is to accelerate building wealth by acquiring quality dividend-paying stocks that have wide economic moats and reliable, regularly growing earnings. By reinvesting the dividends, you can unleash the power of compounding, which will boost long-term returns and the pace at which wealth can be created, while creating a large cash pool to fund retirement.

Once that cash pool has been established, it is possible to make regular withdrawals to supplement other forms of retirement income including the Old Age Security (OAS) pension. Any withdrawals from a TFSA are not treated as taxable income, meaning that they are tax-free and aren't counted toward the OAS income recovery threshold, which, for 2020, is $79,054. That allows you to bolster your income without triggering the OAS clawback and reducing the pension payment.

Here is a top stock every Canadian should add to their TFSA to build wealth and generate recurring passive income. It is important to note that no portfolio should be limited to one stock, because diversification across a basket of stocks is a key tool for managing investment risk.

Leading infrastructure provider

Brookfield Infrastructure Partners (TSX:BIP.UN)(NYSE:BIP) owns a portfolio of infrastructure assets that are critical to economic activity including railroads, toll roads, ports, utilities, data centres, and telecommunications towers. That makes it resistant to economic downturns, because demand for those assets is relatively inelastic.

Moreover, Brookfield Infrastructure's portfolio is diversified across emerging markets, like Brazil, India, and China, as well as developed markets, such as Canada, the U.S., Western Europe, and Australia. That gives it exposure to some of the world's fastest-growing developing economies, which enhances Brookfield Infrastructure's ability to grow earnings while benefiting from the stability associated with developed jurisdictions.

Those factors combined with Brookfield Infrastructure's capital-recycling strategy and ability to access low-cost financing from its parent **Brookfield Asset Management** will allow it to keep making accretive opportunistic acquisitions to grow earnings. That will support its planned annual distribution growth of 5-9%. Brookfield Infrastructure has already hiked its distribution for the last 12 years straight, giving it a juicy 3.6% yield.

More importantly, the partnership has a distribution-reinvestment plan (DRIP), where the regular payments can be used to purchase additional units at no cost. That allows unitholders to access the power of compounding, while avoiding the impact of transaction costs on investment returns, speeding up the pace at which a large lump sum can be accrued.

Over the last decade, Brookfield Infrastructure, if distributions were reinvested, has delivered a whopping 867% return for investors, which equates to a compound annual growth rate of just over 25%. That indicates that a $69,500 investment for just over 12 years could become a retirement nest egg of $1 million. Upon reaching that amount, if the distributions were then taken as cash, it would be possible to generate $3,000 of monthly tax-free income that won't be counted toward OAS income recovery threshold.

Bottom line

There is no guarantee that Brookfield Infrastructure will deliver the same returns over the next decade, but its solid defensive characteristics and virtually guaranteed earnings coupled with considerable growth potential will see it deliver considerable value. For these reasons, Brookfield Infrastructure is an ideal core holding in a diversified portfolio for every investor seeking to build a retirement nest egg and tax-free income stream.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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