TFSA Investors: Get a Passive Income Raise Without Delaying OAS or CPP Pension Payments

Description

It’s not always a good (or prudent) idea for retired Canadians to delay their OAS or CPP pension payments. While you can get a larger monthly payment amount down the road by opting to receive payments later rather than sooner, it’s not at all irresponsible to opt to receive payments now and use any excess cash to finance your Tax-Free Savings Account (TFSA) dividend growth fund.

If you opt to receive CPP pension payments at 60, your payment will be 36% less than if you decided to take it at age 65. If you waited until 70, you’d have 42% more than at 65.

Let’s say you’re 65 and you’re weighing whether to take payments now or wait another five years. A guaranteed 42% boost to your income later on may seem like a no-brainer given the unpredictable nature of the market and the fact that we’re in the late stages of a bull market.

When you consider the opportunity cost of investing the CPP payments into bond proxies like **Emera** (TSX:EMA) with your TFSA, however, it may actually be a better idea to take your pension cash sooner rather than later given the time value of money and the superior risk-adjusted returns that defensive safety stocks can provide you with over the long run.

Of course, every retiree’s circumstances are unique, and this piece just aims to show retirees that there *is* a way for retirees to have their cake (income payments today) and the ability to eat it too (income growth over time).

Have your cake and eat it too!

Over the past five years, Emera has delivered nearly 74% in total returns (capital appreciation and dividends) while exhibiting minimal amounts of volatility (0.34 five-year beta) relative to the broader markets.

With pension payments invested in your TFSA, you’d get a good blend of income, growth, and dividend growth, so you can reward yourself a little bit today while setting yourself up for a more prosperous future.

The decision to receive pension payments now or later does not have to be an “everything or nothing” scenario if you use a portion of the excess proceeds to invest in quality bond proxies. There exists an arguably superior middle ground where you can receive a smaller portion of payments while ensuring that the income you’ll receive in the future will be richer.

Of all the bond proxies on the **TSX,** you may be wondering what makes Emera so special.

I’m not only a fan of the modest valuation at current levels (shares trade at just 13 times EV/EBITDA), but I’m also a fan of the company’s low risk growth profile and promising catalysts that could come into effect over the next five years.

As you may know, safe yields are becoming scarce. You can thank the lower interest environment for this unfortunate phenomenon.

Emera’s 4.2%-yielding dividend is not only bountiful and likely to grow at a high mid-single-digit rate, but it’s also poised to become safer over time given the company’s move to have a more regulated operations mix.

Dividend stocks are typically judged on the magnitude of the upfront yield, the forward-looking growth potential, and its safety, but seldom by the degree of safety in the future.

Emera’s dividend is safe, and it’s becoming more reliable over time thanks to management’s preference of growing its regulated asset base. This coupled with a higher demand for yield calls for a bit of multiple expansion with Emera stock over the next five years.

Foolish takeaway

When to receive pension payments doesn’t have to be a “now or later” proposition. You can have your cake and eat it too by using some (or all) payments and using the proceeds to invest in quality bond proxies like Emera, which can reward you today and in the future.

Stay hungry. Stay Foolish.

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