These Dividend Stocks Can Pay Retirement Income for Life

Description

One of the biggest challenges that savers face in our times is how to invest for their retirement. Should they park their savings in bank accounts, buy GICs, or should they invest in high-risk areas, such as stocks, to earn retirement income for life?

These are quite tough choices, and there is no simple answer to these questions. Generally speaking, a saving strategy for your retirement depends upon your risk tolerance. If you're totally risk averse, then you should buy GICs, pick the best savings account, or invest in government bonds.

But the problem with this approach is that you won't be able to make meaningful progress towards your financial goals for your golden years. In an environment when interest rates are low, these instruments may not offer you retirement income that's enough to live your retirement life comfortably.

The best GICs rates for five years, according to the website ratehub.ca, is about 3%, and the rates on saving accounts is even lower. if you plan to put together a reliable nest egg for your retirement years, then you have to be willing to add some quality dividend stocks to your portfolio.

Dividend stocks for retirement

Adding the best dividend stocks and then continuing to buy more of them from your dividend income can produce a powerful savings tool for you. That means you also need to get ready to add some risk to your portfolio, because investing in stocks isn't as safe as buying GICs or putting money in your savings account.

That being said, there are ways to manage your risk. You can do careful due diligence of the stocks you're buying. For example, you can find some top companies that operate in a kind of oligopoly where competition is limited, the regulatory environment is very favourable for their growth, and they have a very established and diversified revenue base.

Canadian National Railway (TSX:CNR)(NYSE:CNI) stock is one of my favourite picks for retirees. Over the past 10 years, CNR stock has delivered about 300% growth, including dividends, to long-term investors.

Trading at $125.12 a share, CNR stock is up about 14% in the past 12 months. With an annual dividend yield of 1.8%, the company pays about $0.575 a share quarterly payout, which has grown about 17% per year during the past five years.

And I believe this journey will continue for the next 10 years, because the company enjoys a unique competitive advantage in North America. CNR runs a 19,600-mile rail network that spans Canada and mid-America, connecting the Atlantic, the Pacific, and the Gulf of Mexico. This wide economic moat makes CNR a stock that has the power to defend its business while continuing to pursue growth.

Similarly, Canada's Big Five banks have been very consistent in rewarding investors through steadily growing dividends. They spend about 40-50% of their income paying dividends. Such predictability is unique and makes them very attractive targets to earn retirement income for life. You buy and hold one or two stocks from this group, such as **Royal Bank of Canada**.

Bottom line

Even in this low-rate environment, you can still earn a better return on your retirement portfolio. In order to achieve that goal, you need a disciplined investment approach, buying some solid dividend-paying stocks and holding them for a long time.

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