



## TFSA Investing: How Retired Couples Can Earn an Extra \$637 Per Month Tax-Free

### Description

Canadian retirees have the best opportunity in at least a decade to generate a substantial stream of tax-free income from their savings.

### TFSA investing 101

The government launched the Tax-Free Savings Account (TFSA) in 2009 with the objective of giving Canadians a new savings vehicle. The TFSA's tax-free status is advantageous for all savers and investors, but retirees can really benefit.

All income generated inside the TFSA can go right into your pocket. That's right, the CRA does not count gains toward income. In addition, OAS pension payments are not impacted and investors are not bumped into a higher tax bracket.

Seniors with company pensions, CPP, OAS, and RRIF payments often have extra funds left over after covering expenses. The [TFSA](#) is a great place to put the additional cash. Each retiree currently has up to \$69,500 in TFSA contribution space, which means a couple can generate tax-free income on \$139,000.

Let's take a look at two top dividend stocks that appear cheap right now and offer above-average yields on reliable dividends.

### BCE

**BCE** ([TSX:BCE](#))([NYSE:BCE](#)) raised its [dividend](#) by 5% in 2020. At the time of writing the payout provides a 6% yield. The stock trades near \$56 compared to \$65 before the market crash.

The communications giant's media division is going through a difficult period. The group is part owner of the Leafs, Raptors, Argos, and FC professional sports franchises. Sports leagues are on hold during

the pandemic lockdowns and a return to competition will initially occur in empty venues.

BCE also owns radio stations, a television network, and an advertising company. In addition, the firm has brick-and-mortar retail locations across the country.

Media revenue accounted for roughly 14% of total revenue in Q4 2019, so the overall impact on results during the lockdown months shouldn't be too bad.

Wireless and wireline revenue might surprise to the upside. People are working from home and need to keep their kids entertained. Plan upgrades and new streaming subscriptions could help offset the weaker anticipated results in the media business.

BCE generates strong free cash flow. The stock appears cheap right now and the dividend should be very safe.

## Royal Bank of Canada

Amid all the current economic uncertainty, you might think this would be a good time to avoid the banks. Ongoing volatility should be expected, but the largest Canadian banks entered the crisis in decent shape and the sell-off in their share prices to date likely builds in most of the risk.

Deferrals on mortgage payments and loans don't mean the banks have waived the payments, however. The banks simply bump them down the road. While defaults will rise and provisions for losses are expected to jump significantly, government actions, such as buying \$150 billion in mortgages from the banks, will help ensure the financial institutions have the liquidity to keep lending.

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) is very profitable and has a strong capital position that should ensure it gets through the crisis in decent shape. The bank's dividend should be safe and while earnings could be ugly in the next 2-3 quarters, the long-term outlook should be attractive.

A return to economic growth is expected in 2021.

Royal Bank trades near \$81.50 at the time of writing compared to \$109 in February, so there is decent upside potential when the recovery occurs. In the meantime, investors can collect a 5.3% yield.

## The bottom line

An equal investment split between BCE and Royal Bank would provide an average yield of 5.65%. A basket of top Canadian dividend stocks could easily generate an average yield of 5.5% right now, which would provide a retired couple with \$7,645 in annual tax-free income on \$139,000 in TFSA investments.

That's an extra \$637 per month that wouldn't bump you into a higher tax bracket or put OAS pension payments at risk of a clawback.

### CATEGORY

1. Bank Stocks

2. Dividend Stocks
3. Investing

## **TICKERS GLOBAL**

1. NYSE:BCE (BCE Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BCE (BCE Inc.)
4. TSX:RY (Royal Bank of Canada)

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