Forget CERB: A TFSA Could Pay $500 More … Tax-Free!

Description

The CERB has been a vital lifeline to Canadians in the COVID-19 outbreak. Providing $2,000 every four weeks, it has been more generous for many people than EI would have been. CERB applications have generally been approved very quickly, in keeping with Justin Trudeau's promise that Canadians would get help without hassle.

While the standards to qualify for the CERB are fairly lax, not everybody makes the cut. For example, the long-term unemployed and those still earning over $500 a week are not eligible. If you're in either of those categories, you may feel like you're missing out.

In fact, you're not missing much. The CERB is a temporary program that will be lifted whenever the COVID-19 pandemic is over. Many recipients will receive only one month's worth of CERB money before going back to work. That's a one-time $2,000 benefit. By contrast, you can establish an investment portfolio that pays you $2,500 a year — indefinitely. Better yet, all of that money will be tax free if you hold your investments in a TFSA.

How much tax-free money you could make with a maxed-out TFSA

As of 2020, the maximum amount of money you can deposit in a TFSA is $69,500. That assumes you've accumulated space since the program began and haven't deposited anything yet. The actual balance could be higher if you've already realized gains. But we'll stick with $69,500 for simplicity's sake.

With $69,500 invested at an average portfolio yield of 3.6%, you'll bring in $2,500 in dividends a year. On a monthly basis, that's far less than what CERB pays, but remember: CERB is temporary. If you only get one $2,000 monthly CERB benefit, the TFSA portfolio actually pays $500 more in a year.

A stock that can get you to $2,500 a year

With a yield of 3.6%, **Fortis** (TSX:FTS)(NYSE:FTS) could get you the $2,500 annual income stream just described. That would require having your entire TFSA portfolio invested in FTS, which goes against the principle of diversification, but we can treat FTS as a convenient stand-in for a diversified portfolio with an average yield of 3.6%.

Fortis, as a utility, enjoys unusually stable revenue. This is because utilities are essential, government-regulated services. People don't cut out heat and light during recessions — they're simply too fundamental to life. So, people will keep paying their electrical bills, even when they're selling their cars. This explains how Fortis was able to grow its earnings in the 2008/2009 recession. Over the past 46 years, Fortis has increased its dividend every year without fail. It's a testimony to the stability of utilities even in bear markets.

What this all means is that Fortis's dividend is an income stream you can trust. It may not be *quite* as safe as a government bond, but it's about as safe as you're going to get with equities. So, you can park your TFSA money there and keep collecting $2,500 annual dividends indefinitely, with reasonable confidence.

Of course, you should never have your entire portfolio concentrated in just one stock. Diversification reduces risk, and even utilities face some uncertainty. In reality, your TFSA portfolio should consist of many stocks and fixed incomes. Index ETFs are a great idea here. A diversified portfolio with about the same yield as FTS could be had by buying the **iShares S&P/TSX Capped Financials ETF**, for example.

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