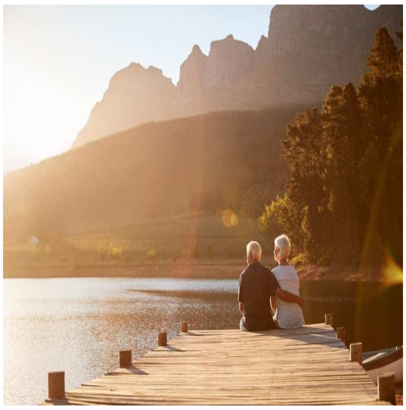

How Retired Couples Can Earn an Extra $6,950 and Pay No Tax to the CRA

Description

Rising living costs can hit seniors particularly hard.

Young people have flexibility when it comes to boosting income. Retirees, however, generally rely on pension payments that are either fixed or see small increases according to official Consumer Price Index (CPI) adjustments.

Unfortunately, the CPI calculation used by the government to determine CPP and OAS hikes is simply a generalized indicator. It might not accurately reflect the true cost-of-living increase incurred by many people.

Falling interest rates wiped out the decent returns that used to come from savings accounts or GICs. That situation isn't expected to improve, but retirees have other options.

TFSA to the rescue

The arrival of the Tax-Free Savings Account (TFSA) in 2009 provided retirees with some savings hope. The cumulative contribution space has since grown to $69,500 per person. A retired couple can hold income-generating investments of $139,000.

The TFSA protects all interest, dividends, and capital gains from the CRA. In addition, the earnings that are removed are not used for the net world income calculation used to determine CRA clawbacks.

With most GIC rates below 1.5% today, seniors are searching for reliable dividend stocks to produce income. Let's take a look at two stocks that might be interesting picks right now.

Telus

Telus (TSX:T)(NYSE:TU) is one of Canada's leading providers of mobile, internet, and TV services. The company also invested heavily in recent years to build Telus Health.

Lockdowns over the past thee months forced millions of Canadians to work from home. Parents utilized the firm's world-class wireless and wireline networks to connect with colleagues and clients while their kids streamed movies, watched TV, or continued their studies through online platforms.

Telus Health has also been invaluable. The division previously sat in the shadows of the larger business lines, but is now better known to investors. The division's multiple products and services helped health providers connect remotely with patients through the crisis. It's possible the pandemic fast tracked the adoption of these services by several years. That bodes well for Telus going forward.

Telus has a great track record of dividend growth. The board tends to raise the payout by 7-10% per year, although 2020 is expected to be an exception. The current distribution provides a yield of 5% and should be very safe.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) is the new name for TransCanada. The board made the change to better reflect the firm's operations. TC Energy has natural gas and liquids pipelines in Canada, the United States, and Mexico. The company is also a major player in the storage of natural gas and has power-generation facilities.

TC Energy's significant capital program positions the firm for steady growth in the coming years. As new assets go into service, revenue and cash flow will increase to support a dividend hike of 8-10% in 2021 and 5-7% per year afterwards.

That's decent guidance in the current environment. The existing dividend provides a yield of 5.4%.

The bottom line

Telus and TC Energy pay attractive dividends that should continue to grow. The companies provide essential services, and the stocks appear cheap today.

A balanced portfolio holding Telus, TC Energy, and a number of other top Canadian dividend stocks could easily generate a 5% yield right now. That would provide $3,475 in tax-free income per year on a $69,500 TFSA fund. A couple could earn $6,950!

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