
How to Create a $312.50 Per Month Tax-Free Pension on a $50,000 TFSA

**Description**

Income investors now have an opportunity to build a reliable tax-free pension in their TFSA.

## TFSA advantage



The Tax Free Savings Account (TFSA) now has cumulative contribution space as high as $69,500 per person. The limit continues to grow each year, giving Canadians a great vehicle for creating a self-directed wealth fund.

Inside the TFSA, all interest, dividends, and capital gains are tax-free. Younger investors can use dividends to acquire new shares and harness the power of compounding. Retirees might prefer to simply use the dividends as a source of tax-free earnings.

The pullback in the **TSX Index** this year made many top dividend stocks extremely cheap in March. While the subsequent rally wiped out some of the best deals, there are still great yields available for income investors.

Let's take a look at two stocks that pay reliable distributions with yields above 7% today.

## Pembina Pipeline

With a market capitalization of roughly $19 billion **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) is a significant player in the Canadian energy infrastructure and midstream segment. The company has a solid 65-year history of strong growth fuelled by strategic acquisitions and capital projects.

Oil and gas producers are battling weak commodity prices. Infrastructure firms that help them move the product to customers face ongoing opposition to large projects. Despite the negative atmosphere, however, oil and gas is still required and demand is expected to ramp up as the economy recovers.

Pembina's diversified business lines help ensure revenue and cash flow are adequate to cover dividends and the capital program. The company moved aggressively to shore up the balance sheet in recent months. As a result, Pembina has the liquidity to ride out the slump.

The stock fell from $53 per share in February to below $17 in March. It has drifted steadily higher over the past three months and now trades near $34.50. At this price, investors can pick up a 7.3% yield. More upside should be on the way.

## RioCan

**RioCan** (TSX:REI.UN) owns shopping malls. Needless to say, that doesn't sound like a great investment right now.

Pandemic lockdowns forced the closure of non-essential retail operations across the country. Commercial tenants watched their revenue plunge and some might not open their doors again. In the case of small owners with local commercial retail assets along your regular main street in secondary markets, the near-term future doesn't look good.

In the case of RioCan, only 15% of its tenants are small companies and the firm has provided rent deferrals to these businesses to help them get through the downturn. The remaining customers tend to be very large retail players in segments that should have strong futures. Pharmacies, grocery stores, and essential home and garden supply stores with a national presence compose a good chunk of the tenants.



No single company represents more than 5% of RioCan's revenue. The diversification protects it against the potential bankruptcies of a few customers. RioCan is moving to mixed use projects where there is a mix of residential and commercial space. The first few developments are doing well and more are on the way.

RioCan has a strong balance sheet. The company can borrow at dirt-cheap rates right now and owns some of the most valuable real estate in six core urban markets.

The CEO recently said a distribution cut isn't being considered. As long as the reopening process continues across the country at a steady pace, malls will reopen and shoppers will return.

RioCan certainly comes with risks. A second pandemic wave and renewed shutdowns would be bad news. That said, the stock price is now at a point where the upside potential likely outweighs the downside threat.

Investors who buy today can pick up a yield of 8.7%.

## The bottom line

Pembina Pipeline and RioCan pay attractive distributions that should be safe. A new investment split between the two companies would provide a yield of 8%.

It *is* possible to build a basket of stocks right now that would easily yield an average of 7.5%. This would provide $3,750 per year or $312.50 per month in tax-free income on a $50,000 TFSA fund.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
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4. Newscred
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