OAS and CPP Not Enough? 2 Top Dividend Stocks to Start a TFSA Pension

Description

Increases to CPP and OAS pension payments remain tied to the Consumer Price Index (CPI). This might not reflect the full rise in living expenses experienced by all seniors.

Historically, Canadian retirees relied on savings accounts, GICs and fixed-income investments to help boost income. Today, getting as much as 2% return or yield is a challenge. As a result, pensioners need to find other options that can provide a reliable income stream.

TFSA benefits

One popular strategy involves holding top dividend stocks inside a Tax-Free Savings Account (TFSA). The TFSA arrived in 2009 and has grown to a maximum contribution limit of $69,500 per person in 2020. That means a retired couple could generate tax-free income on $139,000 in investments.

All interest, dividends and capital gains earned inside the TFSA remain beyond the reach of the CRA. In addition, the CRA does not count any money removed from the TFSA as income when determining net world income for potential OAS clawbacks.

Let's take a look at two top Canadian dividend stocks that might be interesting picks right now to start a diversified TFSA income fund.

Telus

Telus (TSX:T)(NYSE:TU) is a leading player in the Canadian communications industry. The firm is based in British Columbia, but has operations across the country providing mobile, internet, and TV services.

Telus invests significant funds in network upgrades to ensure it can meet rising broadband demand. The anticipated growth driven by 5G provides opportunity for revenue expansion in both residential and commercial settings. Low interest rates and falling bond yields mean Telus can access capital at very cheap rates right now. This could result in more cash being available for distributions.

Telus doesn't own a media business, but its Telus Health division is a Canadian leader in the digital health sector. The use of digital health solutions jumped in recent months and that bodes well for Telus Health in the coming years.

The stock looks attractive right now and investors can pick up a solid 5% yield.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the Canadian and U.S. energy infrastructure sectors. The extensive oil and liquids pipeline network moves roughly 60% of Canadian oil that goes to the United States. Enbridge transports almost 20% of natural gas consumed in the United States and about a quarter of all oil produced in the two countries.

In addition, Enbridge owns natural gas utilities and renewable energy facilities.

Throughput on the oil pipeline network normally operates near capacity. The drop in fuel demand due to pandemic lockdowns reduced supplies needed by refineries in the first half of 2020. As the economy reopens, the situation should gradually return to previous volumes.

Enbridge has a strong balance sheet and the dividend should be safe. The company maintained guidance for distributable cash flow when it reported the Q1 results. Ongoing capital projects should support revenue growth in the next few years.

The stock appears oversold right now near $42 per share. Investors who buy today can get a 7.75% yield.

The bottom line

Retirees can take advantage of the TFSA to create a reliable income stream from top dividend stocks. Telus and Enbridge should be solid picks to get the portfolio started.

The **TSX Index** is home to many leading stocks that now offer very attractive yields for dividend investors.

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