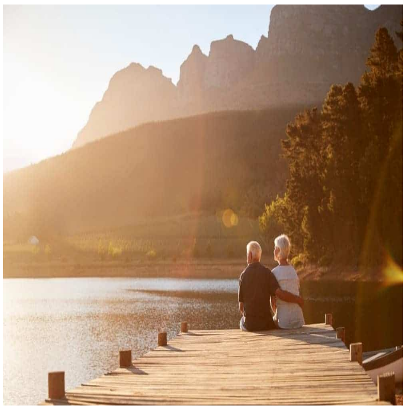

Fortis (TSX:FTS): How This Stellar Dividend Stock Can Help Retirees Top Up CPP and OAS Pension Income

Description

Canadian retirees want better returns on their savings to help offset rising living costs.

Are CPP and OAS not enough?

The Canada Pension Plan (CPP) and Old Age Security (OAS) pensions are designed to give Canadian seniors steady income to help cover basic living expenses. The government indexes the two pensions to inflation, so the CRA raises the distributions each year in line with changes in the Consumer Price Index (CPI).

The CPI measures how the price of a fixed basket of goods and services changes over time. The government adjusts CPP once per year. It reviews OAS quarterly.

The system serves its purpose, but the CPI is a broad-based snapshot of cost of living changes. Retirees might find that the CPP and OAS increases don't keep up with their personal expenses.

TFSA solution

One popular strategy to boost income involves owning top dividend stocks inside a Tax-Free Savings Account (TFSA). All income generated inside a TFSA is yours to keep. That's right; the tax authorities don't take a share of TFSA profits. In addition, the CRA does not include earnings from a TFSA when determining potential OAS clawbacks.

Volatility in the markets is expected to continue in the near term, so it makes sense right now to seek out top-quality companies that plan to raise their dividends through the downturn.

Let's take a look at **Fortis** (TSX:FTS)(NYSE:FTS) to see why it might be an attractive pick for a TFSA income fund.

Regulated assets

Fortis owns utility businesses in Canada, the United States, and the Caribbean. The companies operate in regulated sectors such as power generation, electric transmission, and natural gas distribution.

In the Q1 2020 earnings release Fortis said 82% of the company's revenue is protected by regulatory mechanisms or derived from residential sales.

A decrease in commercial revenue due to COVID-19 will impact results in the near term, but the dip should be partially offset by higher residential demand as a result of people working from home.

Dividends

Fortis is moving ahead on a capital program of nearly $19 billion that will increase the rate base from $28 billion in 2019 to $34.5 billion in 2022 and $38.4 billion by 2024. The long-term growth opportunities in the rate base should support steady dividend hikes.

Fortis plans to raise the dividend by an average annual rate of 6% through 2024. The board increased the payout in each of the past 46 years. Investors who buy the stock today can pick up a 3.6% dividend yield.

That's a lot better than a GIC right now, and the amount you receive increases each year.

The company also grows through acquisitions. Management has an eye for doing deals that add value and the current environment of low interest rates means funding is cheap.

The U.S. Federal Reserve and the Bank of Canada intend to keep interest rates low for the next few years. This should provide ongoing support for the stock.

Returns

Fortis is a reliable pick for retirement income, but it also deserves to be on the radar of younger investors who want to build a TFSA pension fund.

A $10,000 investment in Fortis 20 years ago would be worth about $130,000 today with the dividends reinvested.

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