Retirees: Boost Your CPP Payments the Easy Way

Description

The Canadian government introduced the Canada Pension Plan (CPP) in 1966, to have a retirement pension program in place. Canadians working over the age of 18 are required to contribute to CPP. The CPP is a monthly taxable benefit that aims to replace a part of your income on retirement.

The amount you receive during retirement depends largely on the average earnings throughout your work-life. Further, the contributions to the CPP are also based on your earnings. The average age to start receiving the CPP is 65, however, you can receive it as early as age 60 or delay the payments until you turn 70.

In case you choose to withdraw the payments at the age of 65, retirees will have to forego 36% of their CPP payout. Alternatively, these payouts will be 42% higher if delayed until the age of 70.

The maximum monthly amount you can receive as a new recipient starting pension at the age of 65 is $1,154.68 while the average monthly amount is $679.16. We can see that just relying on the CPP to lead a comfortable life in retirement is not a good idea. Retirees need to ensure they have multiple revenue streams that will help supplement the CPP payouts.

Holding dividend stocks in a TFSA will help support CPP payments

Retirees can look to hold investments in a Tax-Free Savings Account (TFSA). The TFSA is a popular registered Canadian account that was introduced in 2009. While the contributions to the TFSA are not tax-deductible, any withdrawals in the form of capital gains or dividends are exempt from Canada Revenue Agency taxes.

One way to ensure a steady stream of predictable income is by holding dividend stocks in your TFSA. The recent market volatility has sent quality stocks on the **TSX** lower, giving investors an opportunity to buy them at a tasty valuation. This means investors can benefit from attractive dividend yields as well as capital gains.

The TFSA contribution room for 2020 is $6,000, while the total contribution limit stands at $69,500. Retirees can look to buy stocks such as **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) that are pipeline companies but not exposed to volatile commodity price movements.

Pembina stock is trading at $33.92, which is 37% below its 52-week high. This massive decline has meant that its forward dividend yield stands at a juicy 7.4%. So if you invest $10,000 in Pembina stock you will generate $740 in annual dividend payments.

Pembina has been paying a monthly dividend since 1997 and has increased payments at an annual rate of 5% in the last nine years. It generates over 90% of revenue from fee-based contracts and over 80% of these contracts are with investment-grade counterparties.

The Foolish takeaway

Pembina's conservative dividend payout ratio of 60% provides the company enough room to reinvest capital for expansion, lower debt, or increase dividends over time. If Pembina continues to increase dividends by 5% annually your dividend payouts will increase to $1,877 on an investment of $10,000 by the end of two decades.

Pembina is just an example of a quality company on the TSX. You can identify similar companies and add them to your TFSA and support your CPP payouts.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
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