Retirees: How to Increase Your Income Immediately

Description

Often, retirees are recommended to hold an investment portfolio that consists of a mix of bonds and stocks. The general advice to the typical investor maybe 40% bonds and 60% stocks.

An old rule of thumb is to subtract your age from 100 for the percentage in stocks. This suggests that if you're 65, you should keep 35% of your portfolio in stocks and 65% in fixed-income investments like bonds.

However, as interest rates have fallen to historical lows and life expectancy has risen around the world, including in Canada, it has become paramount to put more focus on stocks to make your money last longer. Not only do stocks provide greater longer-term growth than fixed-income investments, but they could also provide more income.

Unlike what you might have heard, stocks don't necessarily have to be risky. A stock's performance in the long run is driven by its underlying business. Some dividend stocks have underlying businesses that produce highly stable earnings or cash flow to support their generous dividends.

A group of these dividend stocks actually tend to increase their payouts! This is perfect for retirees who must maintain their purchasing power from their investments.

Retirees can consider these reasonably valued dividend stocks that pay out safe dividend income.

Fortis stock

Fortis (TSX:FTS)(NYSE:FTS) is a regulated utility with a diversified portfolio of assets generating predictable returns. Its North American electric and gas utilities serve 3.4 million customers.

It also owns ITC Holdings, the largest independent electricity transmission company in the United States, which operates in seven states. ITC Holdings is critical to the economy, because it invests in power transmission infrastructure that lowers electricity costs and improves service reliability andsafety.

Fortis stock has paid increasing dividends every year for almost half a century! Other than its predictable earnings, its sustainable payout ratio is another key factor to keeping its dividend safe and growing.

At writing, it yields 3.6%. Bb buying today, retirees will see their yield on cost rise to about 3.8% soon on an expected dividend increase of approximately 6% in September.

Management is already set out to increase Fortis stock's dividend by about 6% per year through 2025. Once again, this highlights the utility stock's predictability.

The best five-year GIC rate is 2.2%. The long-term inflation rate is roughly 2%. No matter in terms of current income or income growth, low-risk Fortis stock is a good choice. Retirees should consider buying and holding shares and adding on dips.

Real estate stocks

Other than from utilities like Fortis stock, retirees can also seek above-average income from real estate stocks, primarily in real estate investment trusts (REITs).

REITs could be excellent income investments given their consistent rental income from their diversified portfolio of real estate assets.

While **H&R REIT** (TSX:HR.UN) doesn't provide the kind of predictability that Fortis has, it provides a different kind of safety. First, H&R REIT provides a bigger margin of safety in terms of stock valuation. Second, its payout ratio is highly sustainable.

In the last year, the income stock has been making its way up, recovering from the pandemic market crash. Around that time, it saw disruptions in its rent collection that were most prominent in its retail portfolio. The stock still has more than 20% upside to return to its normalized levels.

Management prudently cut its cash distribution by half during the pandemic, which is why H&R REIT's payout ratio is at a historical low. Compare its Q1 payout ratio of 44% against last year's 77% in the same period.

The low payout ratio offers room for cash-distribution recovery. As a result, H&R REIT's 4.2% yield today could easily turn to a yield on cost of 6-7% in a few years for buyers now!

The Foolish takeaway

If you realize you're not generating enough retirement income because of low interest rates, don't panic. There are ways to safely increase your income through dividend stocks, as shown with theFortis and H&R REIT examples.

Consider speaking with a qualified financial advisor if you're not sure how best to shift a bigger portion of your retirement fund into dividend stocks.

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1. Dividend Stocks
2. Investing
3. Personal Finance
4. Stocks for Beginners

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2. TSX:FTS (Fortis Inc.)
3. TSX:HR.UN (H&R Real Estate Investment Trust)

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Date
2025/07/27
Date Created
2021/06/09
Author
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