Retirees: 2 Top Dividend Stocks for TFSA Income

Description

Canadian pensioners are searching for ways to get better returns on their savings. One popular strategy involves owning top dividend stocks inside a Tax-Free Savings Account (TFSA).

TFSA

The TFSA is a great tool for all Canadian investors who want to shield their investment earnings from the CRA. Interest, dividends, and capital gains generated inside the TFSA can be removed without the profits being added to taxable income. This is particularly important for seniors who collect Old Ages Security pensions. The CRA does not include TFSA earnings when calculating net world income to determine the OAS clawback.

Top stocks to buy for a TFSA?

While GICs are safe, they currently pay interest rates that don't keep up with inflation. As a result, many retirees are putting savings in top dividend stocks. The best stocks to own for an income portfolio have long track records of distribution growth and offer good guidance for future dividend increases.

Yield is important, but the outlook for dividend hikes makes some stocks with slightly lower yields more attractive over the long run.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) is a leading player in the North American Energy infrastructure sector with assets located in Canada, the United States, and Mexico. The company moves about 25% of the natural gas used in Canada and the United States, making it an important contributor to the smooth operations of the North American economy. It also owns power production facilities and oil pipelines.

A $20 billion secured capital program is in place and TC Energy is advancing $7 billion in projects. Revenue growth from the news assets and future projects should boost cash flow enough to support annual dividend increases of 5-7% over the coming years. That’s roughly in line with the dividend growth rate over the past two decades.

Investors who buy the stock at the current price near $63 can pick up a 5.5% yield.

Fortis

Fortis (TSX:FTS) (NYSE:FTS) gets most of it revenue from regulated assets. This means cash flow to support dividend payments should be very reliable.

Fortis grows through strategic acquisitions and organic development projects. The businesses are located in Canada, the United States, and the Caribbean and include power generation facilities, electric transmission networks, and natural gas distribution utilities.

Fortis is working through a $19.6 billion capital program that will boost the rate base from about $30 billion in 2020 to $40 billion in 2025. The resulting increase in revenue and cash flow will support average annual dividend increases of 6% over that timeframe.

Fortis raised the distribution in each of the past 47 years, rendering it one of the best dividend stocks on the **TSX Index** in recent decades. At the time of writing the stock trades for close to $56.50 per share and provides a 3.5% dividend yield. This is a case where it makes sense to take a slightly lower return on the initial investment because you know the payout growth will make up for it in the coming years.

The bottom line on TFSA income

TC Energy and Fortis have great track records of rewarding investors with a steady stream of distribution increases. The stocks appear attractive right now and should be solid buy-and-hold picks for a TFSA income fund.

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