



Retirees: 3 Tips to Make Sure Your Dividend Income Is Safe

Description

Most retirees don't work anymore. Some might "work" part-time and get paid for doing what they love. The combined income from the Canada Pension Plan and the Old Age Security are meaningfully lower than during retirees' working years, because retirees are expected to retire largely on their nest eggs.

Some retired couples are able to downsize from a house to an apartment, which immediately provides a big sum of money. They can spend it systematically or invest it to generate a hefty income. The second option sounds much better, but how do you go about doing it?

Retirees can build a dividend stock portfolio with the priority of generating income. While it would be nice to get the most income for your investments, that's not necessarily the safest.

High-yield stocks could come with greater risks. The worst is, the dividend could get cut or eliminated altogether.

If you set rules ahead of making your dividend investments, you can substantially reduce the risk of dividend cuts. Here are three tips to getting a secure dividend income.

Earnings quality

Avoid dividend cuts by investing in [dividend stocks](#) that have strong earnings reliability through economic cycles. These dividend stocks also tend to pay increasing dividends. A dividend-paying company's quality earnings often leads to a track record of safe dividends.

I love using **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) as a safe dividend stock example. Its adjusted earnings per share (EPS) have been highly reliable through economic cycles. In the last 20 years or so, its adjusted EPS only fell in four years by 1-7%. Moreover, in every case, the earnings more than recovered by the following year!

It's straightforward to see why Fortis is such a stable business. First, it's diversified across 10 regulated utility businesses in Canada, the United States, and the Caribbean. Second, its portfolio consists of 3.4

million electric or gas utility customers. They aren't going to cut their essential electric or gas utility services because times get tough. Third, about 93% of its assets transmit or distribute utility services.

Earnings growth is a part of the earnings quality as well. All else being equal, growing earnings make a stock's dividend safer, as it'll lower its payout ratio.

Payout ratio

Other than earnings quality, a sustainable payout ratio also plays a role in keeping dividends safe. Fortis stock's payout ratio was approximately 75% last year. This means it paid out about 75% of its earnings as dividends. Such a high payout ratio could endanger the dividend of stocks that have volatile earnings. That's not the case for Fortis, though. Because of its stable earnings, Fortis stock's payout ratio is safe.

Be diversified

Because of its earnings quality and safe payout ratio, Fortis stock is a Canadian Dividend Aristocrat and has increased its dividend every year for almost half a century! So, retirees can be rest assured that their dividend income from Fortis stock is safe.

However, don't rely on just a stock or two for dividend income. Diversify your dividend portfolio across quality stocks from different sectors and industries that also pay safe dividends. This way, you can spread your risk around. For example, should there be an event that negatively impacts one of your stock's industries, you would have lowered your risk by having a diversified portfolio.

On the **TSX**, other popular areas to seek dividend income are real estate (or [real estate investment trusts](#)), banks, insurers, and telecoms. South of the border, you can find more dividend ideas in healthcare, consumer staples, and technology.

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2. Investing

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Author

kayng

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