TFSA Investing: 1 Top Dividend Stock for Retired Couples

Description

Canadian retirees are using their Tax-Free Savings Accounts (TFSAs) to generate tax-free income on their savings. One popular strategy involves holding top dividend stocks that offer better yields than GICs or other fixed-income alternatives.

TFSA benefit for seniors

Seniors receive income from several sources that get counted as taxable earnings. Payments from a company pension, CPP, OAS, RRSP, RRIF, rental property, and a part-time job are good examples.

When it all adds up, some people find themselves getting close to the minimum threshold for the Old Age Security pension recovery tax. This is important for OAS recipients. The CRA uses net world income to determine the OAS clawback, which is 15% on every dollar earned above a certain amount. In the 2021 income year, the key number is $79,845.

Holding investments in a TFSA protects earnings on the savings from being included in the net world income calculation. A retired couple would have a maximum combined TFSA contribution space of $151,000 in 2021. That's large enough to earn a decent return from a portfolio of top dividend stocks.

The overall market looks expensive these days, but retirees can still find good deals. Let's take a look at **Enbridge** (TSX:ENB)(NYSE:ENB) to see why it might be an interesting pick right now for TFSA passive income.

Enbridge overview

Enbridge is a giant in the North American energy infrastructure industry with a market capitalization of $107 billion.

The company is well known for its oil pipelines. This segment of the business transports a quarter of all the oil produced in Canada and the United States. Fuel demand is rebounding as the global economy recovers from the pandemic and travel restrictions ease. A rebound in air travel and the return to offices will boost demand from crude oil by refineries. That should support a return to near-capacity throughput on Enbridge’s network.

Enbridge also has a large natural gas division and a growing renewable energy business. The gas assets include transmission, storage, and distribution. Enbridge transports about 20% of the natural gas used in the United States. The utility businesses provide millions of homes and commercial buildings with the fuel.

Enbridge grows through internal projects and strategic acquisitions. Getting large new oil pipelines approved and built is difficult, but Enbridge has development opportunities on the natural gas and renewables side of the company. Enbridge is also large enough to buy assets that are good additions to the existing portfolio. The firm recently announced a US$3 billion deal to acquire an oil export facility on the U.S. Gulf Coast.

Dividends

Enbridge’s oil pipelines saw a drop in volumes in 2020, which impacted its cash flow. However, the balanced nature of the revenue stream enabled the company to hit its distributable cash flow (DCF) goal. As a result, management felt comfortable raising the dividend. The rebound in the energy sector and strong demand forecasts for the coming years bode well for ongoing revenue growth.

Enbridge might not increase the payout at the same level each year as it did in the past, but steady hikes in line with expected DCF growth of 5-7% should be on the way.

Investors who buy the stock at the current share price can pick up a 6.3% dividend yield.

The bottom on TFSA income

Retirees can quite easily put together a diversified TFSA portfolio of top Canadian dividend stocks that would provide an average yield of about 5%. On $151,000 of investments, this would generate $7,550 in tax-free income that wouldn’t put OAS pensions at risk of a clawback.

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