Is 6.7% Inflation Eating Your Retirement Income? Here’s What You Should Do

Description

Canada’s inflation rose from 5.7% in February to 6.7% in March. And this is just the average price increase of a household. If you are staying in Toronto, the inflation is way higher than 6.7% and eating up the purchasing power of the working population. Then what about retirees? Those who are living off retirement income could see their savings deplete fast.

Moreover, the Canadian government’s generous pandemic support in 2021 is coming to haunt you in the form of taxes. What should you do in this scenario?

How to save your retirement income from rising inflation

When planning for retirement, you should always factor in inflation and the amount you need after taxes. Even an average 3% inflation can eat up 50% of your savings in 24 years.

If you are already retired, make the best of your Tax-Free Savings Account (TFSA), as it makes your investment income tax free. TFSA’s lifetime limit is $81,500. But if you invest this entire amount in one go, you will have to pay tax on that amount. Hence, invest only the amount that keeps your tax bill in check.

The dividend income that grows

Use the TFSA for some good dividend stocks like **TC Energy** (TSX:TRP)(NYSE:TRP) and **BCE**. Both are infrastructure-driven stocks that have a rich history of paying incremental dividends.

TC Energy has been growing its dividend at a compounded annual growth rate of 7% since 2000. Its latest dividend growth was 3.4%, even when its Keystone XL Pipeline project ended on a weak note. U.S. president Joe Biden’s refusal of the pipeline forced TC to give up on its decade-long project and recoup losses from other projects. You can start a tax-free income pipeline by investing in TC.

TC Energy stock is near its all-time high, as the world faces an energy crisis on the back of the Russia-

Ukraine war. I won't suggest buying the stock at its high, as it reduces the annual dividend yield to 5%. Just wait for the dip to buy the stock. It can hedge inflation risk, as its price grows proportionally to oil and natural gas prices, while its toll fee secures money for dividends.

Diversify your retirement portfolio with alternative investments

Once you have secured regular income, it is time to create a secondary fund that protects your portfolio from stock market downturns and economic crises. What goes up when everything comes down? The answer is gold, real estate, bonds, energy, food, and agriculture. For a long time, gold has been considered an inflation hedge.

But these alternative investments only rise in an upcycle. In the long term, they remain stable or fall. Hence, do not expect them to grow your portfolio's value in the long term. But they can reduce your downside and fight inflation. Here's how.

When inflation rises, your energy bill, rent, and food prices go up. If inflation crosses the 2% target, the central bank hikes the interest rate to control inflation. Higher interest rates boost bond yields. And when inflation rises, the value of paper currency depreciates and that of gold appreciates. As these investments are directly proportional to inflation, they become good hedges.

Barrick Gold's share price surged 24%, and **SmartCentres REIT** and **Canadian Utilities** both surged over 9% between January 25 and April 20. This beats a 6.7% inflation while paying dividends. But never buy these stocks at the high, as they are cyclical. Every significant jump follows a correction.

The three stocks have corrected in the last week, as the U.S. Fed hinted at a big rate hike in May to tame inflation. This rate hike could be as big as 75 bps. Hence, Barrick's and SmartCentres's prices dipped 9% and 3.3%, respectively. This could be a good time to invest less than 5% of your portfolio in these stocks.

Their significant jumps will balance your overall portfolio returns, ensuring that your monthly withdrawals do not burn a hole in retirement savings.

Foolish takeaway

When you are retired from your job, do not retire from investing. Even the most robust portfolio needs active asset allocation. Knowing when to withdraw from which stock and retirement account can increase the life of your retirement savings.

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