Record-High Inflation: Here's How to Protect Your Retirement Income

Description

Canada's inflation rate was at an alarming figure of 5.7% in February, anticipating rising above 6%. The inflationary environment did worsen, as expected, but it was unprecedented. Canada's inflation rose to a 31-year high of 6.7% in March — and this hike is the average price increase for all Canadian households.

Canadians living in traditionally more expensive regions like Toronto have to contend with even higher inflation rates. The working population is concerned about rising inflation eating into their monthly income, but they can work harder to make up for the shortfall. Canadian retirees are also facing issues due to rising living costs, and they are living off their retirement income.

The retirement planning that older Canadian citizens have done through the years might have accounted for rising living costs. However, nobody could have anticipated a pandemic and other macroeconomic factors sending living costs soaring to these heights. Canadian retirees living off their retirement savings could quickly see their nest eggs dry up.

How you can protect your retirement income from red-hot inflation

A sound retirement plan requires you to consider inflation and what you will be left with after taxes. Inflation as low as 3% can eat up half of your retirement savings in just under two-and-a-half decades. Suppose that you have already retired and are living off your retirement income.

You might think that 6.7% inflation could erase your savings much faster than anticipated, but not all hope is lost. However, that might not have to be the case.

Your Tax-Free Savings Account (TFSA) could play a vital role in helping you make the most of your retirement nest egg. The Canadian government does not charge a federal tax on any qualifying investment income originating in a TFSA.

When you invest in a TFSA, you contribute through after-tax dollars. Any income generated by your investments in a TFSA after the fact will grow your account balance without incurring any taxes on dividend income, capital gains, or interest income.

Earning growing dividend income

The cumulative contribution room in TFSAs since the account's inception and after the 2022 update is $81,500. Investing the entire amount simultaneously might not be ideal due to the tax bill it will incur.

Still, you can invest just enough at a time to keep a handle on your taxes. You can use the TFSA contribution room to create a tax-free passive-income stream by investing in dividend stocks like **TC Energy** (TSX:TRP)(NYSE:TRP).

TC Energy is a $70.80 billion market capitalization energy company headquartered in Calgary. The company operates energy infrastructure businesses, and it has a reputation for delivering growing shareholder dividends to its investors. TC Energy stock is a Canadian Dividend Aristocrat that has raised its dividend at a CAGR of 7% for the last 22 years.

Foolish takeaway

TC Energy stock trades for $71.67 per share at writing, and it boasts a juicy 5.02% dividend yield. The energy stock is just 5.55% below its all-time high. Commodity stocks tend to perform well during inflationary environments.

Investing in its shares could give you a hedge against rising living costs and use it to your advantage by enjoying superior investment returns.

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Date
2025/08/26
Date Created
2022/05/02
Author
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