



TFSA Passive Income: How Retirees Can Earn \$390 Tax Free Per Month

Description

The [Tax-Free Savings Account \(TFSA\)](#) limit rose by \$6,000 in 2022, and pensioners currently have as much as \$81,500 in TFSA room to earn income that won't put Old Age Security (OAS) pension payments at risk of a clawback. Canadian retirees can buy high-yield dividend stocks at [undervalued](#) prices right now to generate reliable tax-free income inside their diversified TFSA portfolios.

Bank of Nova Scotia

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) trades for close to \$71 per share at the time of writing and offers investors a solid 5.75% dividend. The stock was as high as \$95 at the 2022 peak.

The current yield is a great return from a top Canadian bank stock and shareholders should see steady growth in the distribution over the coming years. Bank of Nova Scotia increased the payout by 11% late in 2021 and raised the dividend by another 3% when the bank reported second-quarter (Q2) 2022 results. Profits remain robust, despite economic headwinds.

Bank stocks are all down in recent months, as investors worry that revenue and profits will get squeezed in 2023 and 2024. A recession is likely on the way, and a deep economic downturn could certainly cause trouble for the banks. Homeowners are already struggling with high prices for food, gas, and utilities.

The Bank of Canada's rate hikes, designed to cool off the economy and bring inflation under control, could result in a surge in unemployment. If that happens, the combination of job losses and soaring mortgage costs could potentially turn the housing slowdown into a crash. This would be bad for Bank of Nova Scotia and its peers due to the large residential mortgage portfolios they hold.

As long as house prices are higher than the amount borrowers owe the bank, there is limited risk for the lender, but in a scenario where the property value drops meaningfully below the amount of the mortgage, the banks face serious potential losses.

That being said, analysts expect a mild and short recession and a controlled deflation of the housing

market. Households and businesses in general have built up significant savings over the past two years, and this should provide a cushion until inflation falls and the central bank is in a position to reverse the rate hikes. Housing supply remains tight, and demand should be strong, even as borrowing costs rise.

Bank of Nova Scotia has a strong capital position to ride out the downturn. In fact, the bank is sitting on so much excess cash that the board approved a 50% increase this year in the size of the targeted share buybacks.

Near-term volatility is expected, but Bank of Nova Scotia looks cheap right now, trading at close to 8.5 times trailing 12-month earnings.

The bottom line on top stocks to buy for passive income

Bank of Nova Scotia is a good example of a top Canadian high-yield dividend stock that trades at a discount today. Retirees can easily put together a diversified portfolio of TSX dividend stocks that would provide an average yield of 5.75%. This would generate \$4,686.25 per year in tax-free income. That works out to more than \$390 per month!

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