



TFSA Pension: How Retired Couples Can Generate \$706 Each Month Tax Free for Life

Description

The equity market selloff in 2022 has driven the valuations of several Canadian stocks lower. Due to lower share prices, the dividend yields of several companies are now extremely attractive to income-seeking investors.

It is a perfect opportunity to buy blue-chip dividend stocks trading at a discount on the TSX. Further, these shares can be held in a TFSA ([Tax-Free Savings Account](#)) which is a tax-sheltered registered account.

What is a TFSA and how does it work?

The TFSA was launched back in 2009 to help Canadians increase their savings and benefit from tax-free gains. The TFSA limit increases every year, and the maximum contribution room for an individual is \$81,500. So, a retired Canadian couple would have a total TFSA contribution limit of \$163,000 in 2022.

Any income derived in a TFSA in the form of dividends, capital gains, or interest is exempt from Canada Revenue Agency taxes. So, you can hold a portfolio of quality dividend stocks in this account and benefit from a steady stream of dividend income for life.

Let's take a look at two such [dividend stocks](#) that TFSA retirees can buy and hold in a TFSA.

An energy infrastructure giant

One of the largest midstream companies globally, **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) has an enterprise value of \$195 billion. It has a wide portfolio of cash-generating assets spanning from the Canadian oil sands to the Gulf of Mexico. Enbridge owns and operates key infrastructure such as oil pipelines, energy storage, and transportation assets, a regulated utility, natural gas pipelines, as well as wind and solar farms.

It then charges a fee to enterprises using these assets. These fee-based contracts are indexed to inflation, making Enbridge relatively immune to changes in commodity prices. The company has outlined a \$10 billion capital investment program, which should drive cash flows higher in the future.

Due to a predictable stream of cash flows, Enbridge offers investors a tasty dividend yield of 6.3%. It pays shareholders annual dividends of \$3.44 per share, and these payouts have risen at an annual rate of 11.6% in the last two decades.

Enbridge aims to increase cash flows between 5% and 7% through 2023, which, in turn, should support further dividend increases. Analysts expect ENB stock to gain 10% in the next year. After accounting for its forward yield, total returns will be closer to 17%.

A banking heavyweight

Canadian banking stocks have seen share prices decline due to rising interest rates. Further, the threat of an upcoming recession might increase loan default rates and create a weak lending cycle for financial institutions.

But Canadian banks, including **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) are well capitalized to withstand most economic downturns. In fact, TD bank has the second-highest tier-one capital ratio in North America. This ratio measures a bank's capabilities to handle a recession. TD Bank has a tier-one ratio of 14.7%, second only to **Bank of Montreal**, which has a ratio of 15.8%.

TD Bank has taken advantage of bearish market sentiment to acquire companies at a lower valuation. It plans to buy **First Horizon Bank** and **Cowen** within the next year, expanding its reach south of the border.

TD Bank offers investors a dividend yield of 4.1%. These payouts have increased by 9.7% annually since September 2002.

The Foolish takeaway

Investing a total of \$163,000 equally in these two Canadian stocks will allow retirees to generate \$8,475 in annual dividend income, translating to a monthly payout of \$706. But it does not make sense to allocate such a large amount to just two stocks. This article can be used as an example to identify similar blue-chip companies with robust business models and attractive dividend yields.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. araghunath
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date

2025/06/28

Date Created

2022/09/24

Author

araghunath

default watermark

default watermark