2 Ways to Generate Income in Retirement Without Going Back to Work

Description

The dominant consideration for retirees living off their investment portfolios is ensuring a safe withdrawal rate. This is how much a retiree can pull from their accounts every year without depleting their portfolio prematurely, with an often-cited rule being 4%.

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Even with the Canada Pension Plan (CPP) and Old Age Security (OAS), the unfortunate reality is that some retirees will have to supplement their retirement income with part-time work. To avoid this, Canadians should start saving and investing as early as possible in a diversified portfolio of stocks.

For those who are retired, there are alternatives to selling part of your investment portfolio for income. Today, I'll be highlighting two income-oriented exchange-traded funds, or ETFs that yield over 5% a year. Both are designed with consistent monthly income needs in mind. Please note that we at the Fool do not recommend putting such a large sum into just one or two stocks. We prefer a diversified portfolio. These are just examples to show the benefits of investing in ETFs.

BMO Canadian High Dividend Covered Call ETF

BMO Canadian High Dividend Covered Call ETF (TSX:ZWC) offers investors a much higher yield than regular dividend stocks via the use of covered calls. These are options that sell the potential future upside of a stock in exchange for an immediate cash premium.

ZWC manages to achieve a current annualized distribution yield of 6.86% thanks to its dual-strategy. First, the ETF holds 35 Canadian blue-chip, dividend paying stocks, mostly from the financial and energy sectors. Then the ETF sells call options periodically to enhance that income.

In terms of fees, ZWC costs a management expense ratio of 0.72%. This is the annual fee deducted from your overall investment over time. If you invested $1,000,000 in ZWC, you could expect to pay $7,200 in fees per year but also receive $68,600 in distributions, which is enough for retirement income.

iShares Canadian Financial Monthly Income ETF

Some investors might not like derivative-based strategies like covered calls, and that's OK. Covered calls might provide income, but they can cause funds to underperform their vanilla counterparts during bull markets. A good alternative here is **iShares Canadian Financial Monthly Income ETF** (TSX:FIE).

FIE holds a variety of different assets from the Canadian financial sector — a historically well-performing part of the overall TSX. The ETF produces a 7.31% annualized distribution yield by targeting financial sector dividend stocks, preferred shares, and corporate bonds.

Compared to ZWC, FIE has greater sensitivity to changes in interest rates and is less diversified due to its concentration in the financial sector. Its management expense ratio is also higher at 0.84%. If you invested $1,000,000 in FIE, you'd pay $8,400 in fees and receive $73,100 in distributions annually.

CATEGORY

1. Investing

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1. TSX:FIE (iShares Canadian Financial Monthly Income ETF)
2. TSX:ZWC (Bmo Canadian High Dividend Covered Call ETF)

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