3 Low-Risk Ways to Score a Richer Monthly TFSA Payout

Description

Investors with specific near-term financial obligations to settle in 2023 no longer have to keep idle cash in bank accounts. Low-risk ways to generate reasonable monthly income in a Tax Free Savings Account (TFSA) are back in style. Rising interest rates in 2022 significantly changed the menu of options available to Canadian investors. High interest savings accounts and guaranteed investment certificates (GICs) are back among the three low-risk ways to score a richer monthly TFSA payout going into 2023.

Although our hearts usually yearn for super-high yields and life-changing capital gains, low-risk investments may offer steady, almost certain, regular monthly income payouts. What's more, they have a low probability of interest, dividend, and distribution payout cuts and suspensions. Quoted rates above 5% on GICs are popping up on some banking platforms. The invested capital can be insured or guaranteed so investors can sleep well at night with assurances that portfolio values won't go below certain levels in 2023.

Let's have a look at some of the low-risk ways to generate high monthly TFSA income in 2023.

High interest savings accounts (HISA)

Canadian high interest savings accounts (HISAs) came back with a bang in 2022 as the Bank of Canada raised benchmark rates to reign in stubborn inflation. Interest rates on HISAs are as high as 3.85% per annum at Home Trust Bank, a subsidiary of **Home Capital Group**. Offered interest rates are several times higher and more decent today, especially when compared to a 0.05% interest rate quote back in July 2020.

Monthly paycheques from low-risk fixed-income and insured investments could boost your TFSA's earning power in 2023.

Further, your investment in a HISA is usually insured at the government level by the Canada Deposit Insurance Corporation (CDIC) for up to $100,000 per account or category. Some banks may offer provincial-level capital and interest insurance coverage. The accounts also offer unparalleled financial flexibility. You can withdraw or redeem the invested capital at any time during emergencies, without incurring penalties. Interest is usually paid every month into your TFSA account.

TFSA GICs

Guaranteed investment certificates (GICs) usually offer higher interest rates than HISAs. At the time of writing, interest rates on a one-year GIC could be as high as 5.25% at Oaken Financial, with a minimum deposit of $1,000. However, interest rates and payment terms may vary significantly depending on the term of the GIC, and whether it's in a registered account or non-registered one.

Terms vary from a few months to one year, two years, and up to five years, although longer maturities can be available. Interest payments on GICs may be monthly, semi-annual, annual, or occur at maturity. Annual-pay GICs are the most popular.

The most striking general feature of GICs is their penalties on premature withdrawals. Investors should stay the course until the investment matures – or else they incur early-redemption penalties, and lose accrued interest. That said, if you have been struggling to stick to a retirement plan, a GIC with strict lock-up periods may help you modify your financial behaviour.

Like HISAs, returns on GIC investments are guaranteed, and capital is insured by the CDIC – usually up to $100,000 per account. GICs help provide certain fixed income in a TFSA, and protect portfolio capital during times of financial market turmoil.

Buy this safe-yielding TSX REIT

Canadian real estate investment trusts (REITs) are designed to pay out regular monthly distributions from rental income to investors. Although they have equity-type capital risk and price volatility, REITs will provide better inflation protection for your portfolio over the long term as real estate assets appreciate, portfolio sizes grow, and rental income increases with inflation. HISAs and GICs won't offer such growth and inflation protection qualities.

Granite Real Estate Investment Trust (TSX:GRT.UN) is an industrial REIT that holds a $9 billion portfolio of 141 logistics, warehouse, and industrial properties in Canada, the United States, and Europe. It pays a monthly distribution that currently yields 4.6% annually. The trust has increased its payouts for 11 consecutive years so far.

Given a high portfolio occupancy rate of 99.1% and an average lease term of 5.7 years, Granite REIT's portfolio may continue to support regular monthly distributions for many years to come. Moreover, the trust only paid 77% of its adjusted funds from operations (AFFO) during the first nine months of 2022. Distributions are well covered. There's room for further distribution growth beyond 2023 so investors can score a richer monthly TFSA payout.

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