A RETIREMENT INSTITUTE GUIDE

The Role of Dividends in Your *Income Planning*

Getting paid without selling — how dividend income can steady a retirement paycheck, and where it falls short.

WELCOME

Knowledge first. *Always.*

The Retirement Institute exists to help Americans approaching retirement make clear, confident, well-informed financial decisions — without a sales pitch.

This guide is the second in our Retirement Income Series. The first examined guaranteed lifetime income and the role an annuity can play in covering essential expenses. This one turns to the other great source of retirement cash flow: the income that companies pay their owners.

Dividends occupy a strange place in retirement planning. Nearly everyone has heard of them. Very few people have been shown what they actually do to a withdrawal plan — how they change the number of shares you must sell in a bad year, how steady they have been when prices were not, and how much of the market's long-run return they have quietly accounted for.

What follows is the case for dividends, made honestly. That means one page is devoted entirely to what dividends are *not*, including the arithmetic that dividend enthusiasts tend to skip. A strategy you understand the limits of is worth more than one you have only been sold.

> **BEFORE YOU BEGIN**
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> - Dividends are not guaranteed. A board of directors declares them, and a board of directors can reduce or suspend them without notice.
> - Every figure here is historical. Past results do not predict future results, and no strategy protects against loss in a declining market.
> - Both case studies are hypothetical illustrations built to demonstrate a mechanic. They are not projections and not anyone's actual account.
> - Tax figures reflect 2026 federal law. State treatment varies. (Full disclosures appear at the end.)

INTRODUCTION

The paycheck that doesn't require a sale

For thirty or forty years your portfolio had one job: get bigger. You added money, the market did its work, and the only number that mattered was the balance at the bottom of the statement.

Retirement reverses the machine. Now the portfolio has to produce a paycheck, and there are only two ways it can. It can pay you something, or you can sell something. Most retirees are handed a plan built almost entirely on the second option — sell a slice each year, hope the slices hold out — and are never shown that the first exists at meaningful scale.

It does. Going back to 1960, roughly **85%** of the cumulative total return of the S&P 500 is attributable to reinvested dividends and the power of compounding.[1] For six decades those companies have been mailing cash to their owners, and for much of that time the cash mattered more than the price.

PART ONE · MECHANICS

No sale required

A dividend arrives without a transaction — no timing decision, and no need for the market to cooperate on the day you need money.

PART TWO · STABILITY

Steadier than price

Over six decades, S&P 500 prices have been about three times more volatile than the dividend cash flows underneath them.[2]

PART THREE · GROWTH

A rising payment

Since 1988, S&P 500 dividends have grown roughly 6% a year on average — faster than long-run inflation.[3]

The idea worth holding onto: a share price tells you what a stranger will pay you today. A dividend tells you what the business earned and chose to hand over. In retirement, the second number is the one that reaches your checking account.

NUMBER 1

Income that doesn't ask the market's permission

A dividend is a distribution of a company's earnings to the people who own it. The board declares it, the company pays it in cash on a set schedule, and it lands in your account whether the stock closed at a record high that quarter or 30% below where you bought it.

That clause is the whole point, and it is easy to read past. **The size of your dividend check is set by the company's earnings and its board's policy — not by the day's quote.** Coca-Cola did not cut its dividend because the market fell 34% in five weeks in early 2020. Johnson & Johnson did not skip a payment in 2008. The price of those shares was chaotic. The payment schedule was not.

Compare the alternative. If your income depends on selling shares, then every quarter you are required to be a seller, at whatever price is on the screen, whether that price is fair, cheap, or panicked. You have no control over what someone will pay you on the day you need money.

> A price is an opinion, and it changes by the second. A dividend is a payment, and it is approved by a board four times a year.

Where the money actually comes from

The honest version is more persuasive than the sales version. When a company pays a dividend, real cash leaves the business. It is not conjured. It is the portion of this year's profits that management decided it could not reinvest more productively than you can.

That is also why the share price is expected to adjust downward by roughly the dividend on the ex-dividend date — the company is worth slightly less once the cash walks out the door. A dividend transfers value; it does not create it. We return to that in full on page 9.

A share price tells you what somebody will pay you today. A dividend tells you what the business earned.

NUMBER 2

You sell fewer shares — and that changes everything

There is a hazard specific to retirement that does not exist in your working years. It has a technical name, *sequence-of-returns risk*, and a blunter one that captures it better: dollar-cost *ravaging*.

While you are saving, the order of returns barely matters. Once you begin withdrawing, it becomes one of the most consequential variables in the plan. Wade Pfau, Ph.D. has shown that most of a retirement portfolio's ultimate outcome is explained by the first decade alone.[4]

The mechanism is simple and unforgiving. When the market is down 25% and you need $40,000, you do not sell 25% fewer shares — you sell **33% more of them** to raise the same dollars. Those shares are gone permanently. They are not there when the market recovers.

What a dividend does about it

Dividend income funds part of the withdrawal before a single share is sold. Consider a $1,000,000 portfolio and a $40,000 annual need:

IN A YEAR THE MARKET FALLS 25%	DIVIDENDS COVER	SHARES SOLD FOR
Portfolio paying no dividend	$0	$40,000
Portfolio yielding 1.5%	$15,000	$25,000
Portfolio yielding 3.0%	$30,000	$10,000
Portfolio yielding 4.0%	**$40,000**	**$0**

Hypothetical. Assumes the dividend is maintained through the decline; yields shown are not a forecast.

The bottom row is what every income investor is aiming at: a year the market fell hard and nothing had to be sold.

The shares you don't have to sell in a bad year are the ones that fund the good ones.

NUMBER 3

The cushion when markets fall

Dividends soften a decline in two separate ways, and they are worth separating.

First: the income itself barely moves

Over six decades, S&P 500 share prices have been roughly **three times more volatile** than the dividend cash flows underneath them.[2] Sentiment moves prices in the short run. Earnings move dividends. The two do not travel together.

Excluding the two great outliers, the average dividend reduction across U.S. recessions has been on the order of **2%** — against an average peak-to-trough market decline of about **32%**.[5] Even in 2008–09, the worst dividend environment since the 1930s, aggregate S&P 500 dividends fell roughly 25% while the index itself fell about 57%.[6] And in the second quarter of 2020, with the economy shut down, actual S&P 500 dividend payments came in 0.3% *higher* than a year earlier.[7]

A retiree living on dividends in 2008 watched the balance fall by half and the income fall by a quarter. A retiree living on share sales watched both fall by half. That gap is the entire argument.

Second: the yield offsets part of the loss

Total return is price change plus dividends. A 3% yield does not stop a decline, but it turns a −10% price year into a −7% total-return year. In the Ned Davis Research study covering 1973–2025, dividend growers and initiators carried a beta of **0.89** against **1.18** for non-payers — meaningfully smaller swings in both directions.[8]

Prices are a vote. Dividends are a payment. Votes change far more often than payments do.

NUMBER 4

Where the returns actually came from

There is a persistent belief that choosing dividends means giving up growth — that income is the consolation prize you accept in exchange for a smaller number at the end. The historical record says close to the opposite.

- Going back to 1960, roughly **85%** of the cumulative total return of the S&P 500 is attributable to reinvested dividends and compounding — about 30% on an average annual basis.[1]
- From 1940 through 2025, dividend income's contribution to the index's total return averaged **33%**.[1]
- From December 1926 through December 2012, dividend income made up **34%** of the S&P 500's monthly total return. In the 1940s and 1970s it exceeded half.[10]

The decade that proved the point

From 2000 through 2009 — the "lost decade" — the S&P 500 produced a *negative* total return. An investor counting only on price appreciation finished with less than they started with, after a full decade of patience. Dividends over that stretch contributed **1.8% annualized**.[1] Not enough to make the decade good, but the only thing the index paid.

None of this argues that dividend stocks always win. They do not. The stretch from roughly 2010 through 2024 was dominated by large technology companies that paid little or nothing, and income-focused portfolios trailed badly. The honest claim is narrower and more useful: **dividends have not been a drag on long-run return — they have been most of it.**

Over the long run, more of the market's return has come from the checks than from the quotes.

NUMBER 5

A raise you never had to ask for

Inflation is the risk that never sends a notice. It does not arrive as a bad day on the news. It arrives as a grocery bill that is somehow $40 higher than it used to be, every week, for twenty years.

Most retirement income sources are defenseless against it. A bond coupon is fixed for the life of the bond; a CD rate for its term; a fixed pension pays the same dollars in year one and year twenty-five. Each promises certainty, and the certainty it delivers is that your purchasing power will shrink.

A dividend behaves differently, because it is not a contract — it is a policy the board revisits, and healthy companies revisit it upward. **Since 1988, S&P 500 dividends have grown roughly 6% per year on average**, faster than long-run inflation and faster than long-run GDP growth.[3]

Yield on cost: the number nobody shows you

Current yield measures what a position pays against today's price. *Yield on cost* measures what it pays against what you paid.

YEARS HELD	ANNUAL INCOME ON A $100,000 POSITION	YIELD ON YOUR ORIGINAL COST
Year 1	$3,000	3.0%
Year 10	$5,073	5.1%
Year 20	**$9,086**	**9.1%**

Hypothetical. Assumes a 3.0% starting yield and constant 6% dividend growth, no reinvestment, no change in share count. Dividend growth is not guaranteed and has been zero or negative in 2001–02, 2008–09, and 2020.

The retiree in that table did nothing after year one. The income tripled because the companies kept raising the payment.

A fixed payment shrinks every year you live. A growing one is designed not to.

NUMBER 6

What a rising dividend says about the business

Earnings can be presented flatteringly. Adjusted figures, one-time charges, and accounting choices leave a great deal of room for interpretation. A dividend leaves none — the cash either clears the bank on the payment date or it does not. Ned Davis Research sorted every S&P 500 company from 1973 through 2025 by what it did with its dividend.

S&P 500 STOCKS BY DIVIDEND POLICY, 1973–2025	AVG. ANNUAL RETURN	BETA	STD. DEVIATION
Dividend growers & initiators	**10.22%**	**0.89**	**15.97%**
Dividend payers	9.20%	0.94	16.71%
Equal-weighted S&P 500 Index	7.74%	1.00	17.55%
No change in dividend policy	6.87%	1.02	18.45%
Dividend non-payers	4.21%	1.18	21.91%
Dividend cutters & eliminators	**−0.96%**	**1.22**	**24.80%**

Data as of 12/31/25. Sources: Ned Davis Research and Hartford Funds.[8] *Past performance does not guarantee future results. Indices are unmanaged and not available for direct investment. For illustrative purposes only.*

Two things jump off that table. The top row: the group with the *highest* return also had the *lowest* volatility — a combination rare enough in financial data to deserve attention.

The bottom row: over fifty-two years, companies that cut or eliminated their dividends produced a **negative** average annual return. And on the day before a cut, every one of those companies was a high-yielding stock. **The winning trait was never the highest yield. It was the rising one.**

Chase the yield and you may find the cut. Follow the raise and you may find the company.

NUMBER 7

How dividends are taxed — and where to hold them

Not all dividend income is taxed alike, and the gap is wide enough to change which account a holding belongs in. **Qualified dividends** — generally those paid by U.S. corporations on shares held long enough — are taxed at long-term capital gains rates:[11]

2026 TAXABLE INCOME	SINGLE	MARRIED FILING JOINTLY
Taxed at 0%	**up to $49,450**	**up to $98,900**
Taxed at 15%	to $545,500	to $613,700
Taxed at 20%	above $545,500	above $613,700

Per IRS Rev. Proc. 2025-32. Ordinary income fills the brackets first; qualified dividends stack on top. State tax may also apply.

That first row is not a typo. A retired couple whose 2026 taxable income stays under $98,900 may owe no federal income tax at all on their qualified dividends. **Ordinary (non-qualified) dividends** are taxed at regular rates, up to 37% — most REIT distributions, money-market dividends, and payments on briefly held shares.

- **The 3.8% surtax.** The Net Investment Income Tax applies once modified adjusted gross income exceeds $200,000 single or $250,000 joint — thresholds not adjusted for inflation since 2013.[12]
- **You cannot turn dividends off.** Unlike an IRA withdrawal, they arrive whether you need the money or not, and they land in AGI. That raises provisional income, which determines how much Social Security becomes taxable, and the MAGI that sets your Medicare premium two years later through IRMAA.[13]

The practical response is *asset location*. Qualified payers sit efficiently in a taxable account; REITs and other ordinary-dividend payers belong in a tax-deferred or Roth account. Dividends inside a Roth never enter AGI — so they never touch IRMAA.

Two households can receive the identical dividend and keep very different amounts of it.

A CLOSER LOOK

What dividends are *not*

An organization that tells you only the good half is not educating you. Here is the other half — and knowing it is what makes the first eight pages usable rather than decorative.

They are not free money.
When a dividend is paid, cash leaves the company, and the share price is expected to adjust downward by approximately the dividend amount on the ex-dividend date. A dividend *transfers* value to you; it does not manufacture it. (The observed drop has averaged somewhat less than the full dividend — documented even in markets with no dividend or capital-gains tax[14] — but the honest starting assumption is a transfer.)

They are not guaranteed.
A board declares a dividend and a board can suspend it. In 2008–09 aggregate S&P 500 dividends fell about 25%, concentrated in financials. In the second quarter of 2020, fifty S&P 500 companies cut or suspended their payouts.[7]

They are not a substitute for total return.
A portfolio that pays you 7% while losing 9% of its value each year is shrinking, no matter how reliable the checks feel. Yield is one component of return, never the whole of it.

They are not a reason to concentrate.
Reaching for the highest yields pulls a portfolio into a narrow band of sectors. In 2009, more than 30% of all S&P 500 dividends came from financials — which is precisely why that year hurt income investors so badly.[2]

They are not automatically better than selling shares.
If two portfolios earn the same total return and you withdraw the same dollars, you end up in the same place. That is arithmetic and it deserves respect. What a dividend buys is not a higher return — it is a steadier source for the withdrawal, and the option not to transact at a bad price.

A very high yield is usually a warning.
Yield is the dividend divided by the price. When a yield jumps to 9% or 12%, it is far more often the arithmetic of a collapsing price than the generosity of a board. That is the "yield trap," and the bottom row of the table on page 7 is what it costs.

IN PRACTICE · CASE STUDY ONE

The year Ellen didn't have to sell

HYPOTHETICAL ILLUSTRATION — NOT AN ACTUAL CLIENT

Ellen and Marcus are both 66 and both retired on January 1 with **$600,000** in equities and a need for **$30,000** a year from the portfolio. Each owns 20,000 shares priced at $30. Ellen's holdings pay $1.00 per share — a 3.3% yield. Marcus's pay nothing. In their first year of retirement the market falls 25%, and both portfolios go to **$22.50** a share.

YEAR 1 — MARKET DOWN 25%	ELLEN	MARCUS
Income needed	$30,000	$30,000
Paid by dividends	$20,000	$0
Must be raised by selling	$10,000	$30,000
Shares sold at $22.50	444	1,333
Shares still owned at year end	**19,556**	**18,667**

Ellen ends the year owning **889 more shares** than Marcus — and she got there by selling one third as much stock at the worst price of her retirement so far.

The honest footnote. If both portfolios ultimately earn the same total return, their ending values converge — that is arithmetic, and no amount of enthusiasm changes it. Ellen's real advantage is threefold: her dividend held steady while the price did not; two thirds of her paycheck required no decision from her; and she was never *forced* to sell on a day the market was panicking.

Note what would have broken this: a dividend cut. Had Ellen's payout been halved that same year, she would have sold $20,000 of stock instead of $10,000. Which is exactly why page 7 is about growers, not about high yields.

IN PRACTICE · CASE STUDY TWO

The raise that arrived in year eight

HYPOTHETICAL ILLUSTRATION — NOT AN ACTUAL CLIENT

Ray and Diane are 65 with **$400,000** earmarked for income. **Option A** is a bond ladder: $400,000 at 4.5% pays $18,000 a year, fixed, principal returned at maturity. **Option B** is a dividend growth portfolio: a 3.0% starting yield pays $12,000, assumed to grow 6% a year, with nothing contractual.

Option A wins by $6,000 in year one — a 50% larger check. Most people stop there. Here are the next twenty years at 2.5% inflation:

ANNUAL INCOME	BOND LADDER (FIXED)	DIVIDEND GROWTH (6%/YR)	DIVIDENDS IN YEAR-1 DOLLARS
Year 1	$18,000	$12,000	$12,000
Year 8 — the crossover	**$18,000**	**$18,044**	**$15,152**
Year 20	$18,000	$36,307	$22,711
Total, years 1–20	$360,000	$441,427	—

Hypothetical. Assumes constant 6% dividend growth, a level 4.5% coupon, and 2.5% inflation. Actual dividend growth varies and has been negative in some periods. Not a projection.

The final column is the one to read twice. The bond's year-twenty $18,000 buys what **$11,259** bought in year one; Diane's $36,307 buys what **$22,711** bought — roughly *twice* the purchasing power.

What this does not say. A bond ladder returns principal on a schedule; the dividend portfolio promises nothing and can lose 30% in a year. Most sound plans use both. The point is that "the bigger check today" and "the better income over thirty years" are often not the same answer.

THE BOTTOM LINE

Get paid to wait — *not just to hope.*

Every retirement portfolio answers one question, over and over, for as long as you live: where does this month's money come from?

A plan built only on selling answers it with a transaction, at whatever price the market happens to be offering that week. A plan that includes dividends answers part of it before the question is asked.

TWO HONEST QUESTIONS WORTH SITTING WITH

— How much of your retirement income currently requires you to sell something? —

— If the market fell 30% next year, how many shares would you have to give up in order to eat? —

About The Retirement Institute

The Retirement Institute is a non-profit dedicated to financial education for those approaching and living in retirement. We publish clear, unbiased guides on the subjects that matter most — taxes, income, healthcare costs, and legacy — so decisions come from knowledge rather than fear. We don't sell products. We teach.

IMPORTANT DISCLOSURES

This guide is provided by The Retirement Institute for general educational purposes only. It is not, and should not be relied upon as, personalized financial, investment, tax, or legal advice, and it creates no client or fiduciary relationship. The Retirement Institute does not sell securities or insurance products. All case studies are hypothetical, simplified for illustration, do not represent any actual person or account, and are not projections of future results.

Dividends are not guaranteed. A company's board of directors may reduce, suspend, or eliminate a dividend at any time and without notice. Investing in equities involves risk, including possible loss of principal; dividend-paying stocks are not guaranteed to outperform non-dividend-paying stocks in a declining, flat, or rising market. Yield is only one component of total return. A high yield may reflect a falling share price rather than financial strength. Past performance does not guarantee future results. Indices are unmanaged, do not reflect fees or expenses, and are not available for direct investment.

Tax figures reflect federal law for the 2026 tax year and are subject to change; state and local treatment varies. Consult qualified, appropriately licensed professionals before making any decision.

[1] Research and data referenced in this guide includes: Hartford Funds, "The Power of Dividends: Past, Present, and Future" (data as of 12/31/25; sources Morningstar and Hartford Funds) and "Do Dividends Matter More When Markets Falter?"; Ned Davis Research and Hartford Funds, S&P 500 stocks by dividend policy, 1973–2025; WisdomTree, "Dividend Stability: History as a Guide"; Argus Research, "Three Signals from Dividend Growth" (2025); Wade D. Pfau, Ph.D., research on sequence-of-returns risk; Simply Safe Dividends, analysis of S&P 500 dividend behavior across U.S. recessions; S&P Dow Jones Indices, aggregate S&P 500 dividend data and the news release of July 8, 2020, and "Dividend Investing and a Look Inside the S&P Dow Jones Dividend Indices"; IRS Revenue Procedure 2025-32; Internal Revenue Code §1411; Centers for Medicare & Medicaid Services and IRS Publication 915; and Frank, M. and Jagannathan, R., "Why do stock prices drop by less than the value of the dividend? Evidence from a country without taxes," Journal of Financial Economics (1998).