TFSA Pension: How to Add $307 in Tax-Free Monthly Income Without Losing OAS Benefits

Description

The Tax-Free Savings Account is becoming a popular tool for investors who want to increase their monthly retirement income without compromising their Old Age Security (OAS) payments.

Why is this important?

The Canada Revenue Agency has a claw back program that kicks in when a pensioner's net global income for the year surpasses a certain level. In 2019, that amount is $77,580.

Every dollar that exceeds that level triggers a 15% claw back from the OAS payments until the full OAS is wiped out. The government refers to this as the OAS *pension recovery tax.*

Company pensions, RRSP withdrawals, and income generated in taxable investment accounts all count toward earned income for the year.

One way to increase your monthly cash flow without putting the OAS at risk is to generate the income inside a TFSA. All interest, dividends, and capital gains created inside the TFSA are yours to keep and will not be lumped in when the CRA determines your OAS payments for the following year.

Since the TFSA's inception in 2009, Canadians have accumulated as much as $63,500 in TFSA contribution room. If the full amount is invested in a handful of top-quality dividend stocks, a retiree can generate a nice stream of tax-free income.

Let's take a look at two stocks that might be interesting picks today.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:ENB)(NYSE:ENB) just reported solid fiscal Q3 2019 earnings supportedby a strong performance from the international division.

The company has spent billions of dollars to acquire banks and credit card portfolios in Mexico, Peru, Chile, and Colombia. While this might seem risky, the four countries have improved their economic stability and offer attractive growth opportunities as the middle-class expands.

Bank of Nova Scotia also made two large wealth management acquisitions in Canada last year that will boost the company's presence in that segment in the domestic market.

The bank remains very profitable and just raised the dividend, so the board can't be overly concerned about the medium-term outlook for revenue and profits.

The stock appears cheap today and provides a dividend yield of 5.1%.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a major player in the transportation of oil and natural gas from Canadian and U.S. producers to processing facilities. The company also has renewable energy power generation assets and natural gas distribution businesses.

Pushback against major pipeline developments has put the energy infrastructure players in the penalty box with the market in the past two or three years, but Enbridge is making adjustments to navigate the changing environment and has modified corporate structure to position itself to thrive over the long haul.

Enbridge already found buyers for about 80% of the $10 billion in non-core assets identified through a strategic review. It also bought the outstanding shares of four subsidiaries and folded the businesses into the parent company.

This makes it easier to evaluate Enbridge as an investment opportunity while also keeping more cash flow inside the core firm.

Enbridge can self-fund its current $19 billion capital program and continues to pay an attractive dividend. At the time of writing, investors who buy the stock can secure a 6.5% yield.

The bottom line

An equal investment in Bank of Nova Scotia and Enbridge would provide an average dividend yield of 5.8%, generating annual tax-free dividends of $3,683 on a $63,500 TFSA portfolio.

That's about $307 per month of extra cash right in your pocket — and you don't have to worry about the income tipping you over the edge on your OAS calculation.

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