Retirees: How to Get $336 in Additional Monthly Income While Protecting OAS Payments

Description

Canadian pensioners are counting their pennies, and any way they can boost income without having to worry about paying more tax is a bonus.

One area of concern revolves around OAS clawbacks. The government has a system in place that calculates your net world income each year and applies it against a benchmark for determining Old Age Security payments. When a person's net earnings goes over a certain limit, the government will impose a pension recovery tax of $0.15 for every dollar of earnings that exceeds the threshold.

In the 2019 income year, the magic number is $77,580. Once your income goes over that level, the OAS is reduced until you hit net world income of $125,937. At that point, the OAS is wiped out.

At first glance, $77,580 might sound like a lot of money, but it doesn't take long to hit that number if you have a good company pension combined with CPP and RRIF payments. Income from a rental property or non-registered accounts could also be part of the mix.

The best way to get income that isn't taxed is to generate it inside a TFSA. All interest, dividends, and capital gains are tax-free and can be taken out at any time without penalty. In addition, the amounts withdrawn don't get lumped into your income calculation for OAS benefits.

As of 2019, the TFSA cumulative contribution limit is $63,500.

Why buy dividend stocks?

The Bank of Canada has put the brakes on its rate-hike program and is expected to make the next move a cut. This is putting pressure on GIC rates and bond yields. As a result, the best bang for your buck currently resides in dividend stocks.

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

Power Financial

Power Financial (TSX:PWF) is a holding company with the majority of its portfolio focused on Canadian insurance and wealth management businesses.

The stock is an attractive way to get high yield from a financial company without the housing exposure you take on through the banks.

Power Financial raised its dividend by 5% this year and bought back $1.65 billion in shares, so management appears comfortable with the revenue and cash flow outlook.

The current dividend provides a yield of 6.2%.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a major player in the North American energy infrastructure sector with pipelines running across Canada and the United States. The company also has renewable energy assets.

A strategy shift by management to focus on regulated assets is starting to bring investors back to the company after the market became a bit uncomfortable with the balance sheet and the growth prospects.

Enbridge already found buyers for $8 billion in non-core assets and can internally fund its $19 billion development program. The company has the financial power to make strategic acquisitions and should deliver steady dividend growth in the coming years.

The stock appears oversold right now and offers a solid 6.5% yield.

The bottom line

A TFSA portfolio of $63,500 split between Power Financial and Enbridge would generate $4,032 per year in tax-free income that wouldn't put your OAS pension at risk. That's about $336 per month!

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