Pension Income 101: Top TFSA Stocks for Retirees to Avoid OAS Clawbacks

Description

Canadian pensioners are using their Tax-Free Savings Accounts (TFSAs) to generate an income stream that won't tip them over the edge when it comes to potential clawbacks on their Old Age Security payments.

The TFSA is unique in that all income generated inside the vehicle is yours to keep and it isn't used by the CRA to determine your net world income, which is the basis for calculating possible OAS repayments.

For the 2019 tax year, any person with net world income of more than $77,580 will be subject to an OAS pension recovery tax of 15% on every dollar that exceeds that amount.

Let's take a look at two top Canadian dividend stocks with long track records of boosting the payouts that should be reliable picks for a TFSA income portfolio.

TD

Toronto Dominion Bank (TSX:TD)(NYSE:TD) is a giant in the Canadian banking sector with a market capitalization of $136 billion.

The company has the size and financial firepower to invest in digital banking solutions, enabling it to remain competitive in a world where more people are using mobile applications to manage their personal banking activities.

TD's focus on retail banking is one reason many analysts consider it to be the safest choice among the Canadian banks.

TD's large American division is also an asset. In fact, the company operates more branches south of the border than it does in the home country. The U.S. business accounts for about a third of total profits, providing Canadian investors with a great way to get U.S. exposure without owning a U.S.-based company.

TD has increased its dividend by an average annual rate of about 11% over the past two decades. The current payout provides a yield of 4.0%.

The drop in bond yields in 2019 has helped remove risk from the Canadian residential housing market, and it appears the sector is going to avoid the crash that many pundits predicted in recent years.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications company with a nice combination of assets that enables the business to interact with most Canadians nearly every day.

BCE's media division includes sports teams, radio stations, a television network, and specialty channels. The company has state-of-the-art wireless and wire line networks providing Canadians from coast to coast with mobile, TV, and internet services.

BCE has the power to raise prices when it needs some additional cash. This might upset consumers, but it's the reality of the Canadian communications industry. Being an investor at least gives you a chance to benefit.

BCE raises its dividend at a steady pace of about 5% per year. Free cash flow growth in 2019 is expected to be a solid 7-12%, which should support a nice dividend hike in 2020.

The stock picked up a tailwind in 2019 due to falling bond yields and expectations for interest rate cuts by the Bank of Canada. The trend toward lower rates should continue to support BCE's share price.

Why?

Investors are increasingly attracted to the 5% dividend yield and lower debt costs make more cash available for distributions.

The bottom line

The TFSA limit is currently $63,500 per person. A split between BCE and TD would provide an average yield of 4.5%, or more than $2,850 in tax-free income per year that would not count toward the CRA's OAS clawback threshold.

Using the TFSA is a great way to build retirement wealth and generate tax-free income. The **TSX Index** is home to a number of other top stocks that would be good picks to go with TD and BCE in a TFSA portfolio.

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