How Retired Couples Can Earn an Extra $645 Per Month Without Risking OAS Clawbacks

Description

Canadian retirees get their income from a number of sources, including company pensions, CPP and RRIF payments, as well as Old Age Security.

Some even have sideline gigs that could include rental properties or a part-time job to help pay the bills.

One concern for seniors is letting net world income get beyond the minimum threshold the CRA uses to calculate OAS clawbacks. In the 2019 tax year, this amount is $77,580.

Why?

When net income moves above that amount, the CRA implements a pension recovery tax of 15% on the difference between your earnings and the minimum threshold.

Fortunately, there's a way around the issue. Seniors can earn extra cash without putting the OAS pension at risk by generating the income inside a TFSA, where it's protected from the tax authorities and won't count toward your income calculation.

As of 2019, each Canadian resident has as much as $63,500 in TFSA contribution room.

How to invest?

The best bang for your buck arguably comes from dividend stocks, especially now that GIC rates are back down to about 2%.

Let's take a look at two companies that might be interesting picks for your TFSA income portfolio.

IPL

Inter Pipeline (TSX:IPL) is a player in the midstream segment of the Canadian energy sector. The company owns oil sands pipelines, conventional oil pipelines, and natural gas extraction facilities in Alberta. IPL also owns a bulk liquids storage business in Europe.

Growth comes from strategic acquisitions and new developments. The company's $3.5 billion Heartland Petrochemical Complex is on schedule and should be in operation by the end of 2021. The site is expected to generate additional average annual EBITDA of $450-500 million.

This should help support ongoing dividend growth. IPL has raised its payout in each of the past 10 years, and sends out its distribution monthly.

The stock currently provides a yield of 6.9%.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) recently reported solid fiscal Q3 2019 results and raised its dividend.

The bank relies heavily on business generated in Canada but is also expanding its presence south of the border. In fact, CIBC spent more than US$5 billion in the past couple of years to acquire private and commercial banking operations in the United States.

The American operation is expected to expand in the coming years and should provide a nice revenue hedge against any potential downturn in Canada.

CIBC has a large Canadian residential mortgage portfolio. The plunge in bond yields in 2019 is helping ease pressures on the Canadian housing market, as existing homeowners can renew at favourable rates and new buyers are able to enter the market.

The trend of lower rates is expected to continue for some time, so there shouldn't be too much concern about CIBC or its peers getting hit by a housing crash.

The stock has bounced off the 2019 low, but still appears attractively priced. Investors who buy today can pick up a 5.3% yield.

The bottom line

A TFSA portfolio split between IPL and CIBC would generate an average yield of 6.1%.

On a combined portfolio of $127,000, a couple could earn an additional $7,747 per year, or about $645 per month, without risking the OAS clawback.

Diversification is important and the **TSX Index** is home to many stocks that provide similar yields and would be great picks for a balanced TFSA portfolio.

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