



Baby Boomers: Earn \$888 Extra Monthly Income While Protecting OAS Payments

Description

Many Canadian baby boomers are approaching retirement. If you're one of them, you're probably computing the total amount of money you'd have on day one of your retirement. You would need to apply for the Old Age Security (OAS) to start receiving the pension payment on your 65th birthday.

The focus of this article is only for those who have met all eligibility requirements and are entitled to receive the full OAS pension.

Taxable income

Usually, Service Canada will send you a letter one month after your 64th birthday to formally advise you of your eligibility. Eligible baby boomers will need to apply soon to commence pension payments at age 65.

If you want higher monthly pension, you have the option to defer payments 60 months after your eligibility date. The first thing to remember about your OAS payments is that all are subject to tax. Any tax component is material to a retiring baby boomer.

The tax due, or the so-called OAS clawback, is equivalent to 15% of your net income. If the threshold for 2018 is \$75,910, and assuming your income is \$81,830, the tax due would be \$888. Below is the sample computation:

$$\$81,830 - \$75,910 = \$5,920 \times 0.15 = \$888$$

Protect your OAS payments

The best way to offset, not evade, the tax or the OAS clawback is to purchase dividend stocks and create a tax-free income stream in your TFSA. **National Bank of Canada** ([TSX:NA](#)) and **Fortis** ([TSX:FTS](#))([NYSE:FTS](#)) are outstanding dividend stocks. You could address your tax concerns on the OAS payments with both.

Assuming you are 24 years away from your 65th birthday or your first OAS monthly pension, investing \$10,000 in each National Bank and Fortis would be enough to earn a monthly income that is almost double the \$888 computed above. The average dividend yield of the two stocks is a decent 3.83%.

National Bank is the perfect stock for the retiring baby boomers because this 160-year-old banking institution is just as stable as Canada's Big Five banks.

National Bank has EPS growth of 22% in the last three years. Some retirees would go as far as saying that this bank stock is [the bulletproof vest](#) of their portfolios.

Fortis has always been a top choice of retirement planners and dividend investors. The stock is a Dividend Aristocrat with a distinguished record of 45 consecutive years of dividend payments. Generating stable cash flows is never a problem of this gas and electric utility company.

Smart investors use Fortis to [optimize returns on both the TFSA and RRSP](#). The energy stock can do financial wonders if you know how to work between the two popular investment vehicles. As an investment option, it's a given that Fortis would stand out in a rising or declining market. That has been the story for years.

Zero out the OAS clawback

Prevent your OAS pension from dissipating. With the tax-free gains from dividend stocks National Bank and Fortis in your TFSA, the effects of the 15% OAS clawback would be close to negligible.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)
3. TSX:NA (National Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

Date

2025/09/19

Date Created

2019/09/24

Author

cliew

default watermark

default watermark