Retirees: How to Boost Monthly Passive Income by $529 While Protecting OAS Payments

Description

Canadian pensioners are searching for ways to boost their retirement income without being hit by Old Age Security clawbacks.

The OAS threshold for the 2019 income year is $77,580. That will increase in 2020, but not by much, based on recent history. Canadian retirees with decent company pensions can hit the threshold quite easily, especially when the payments are combined with CPP, OAS, and other income sources.

For example, some people are also receiving RRIF payments. Others might have a side gig that generates taxable income.

Aside from picking up an inheritance or winning big on a lottery ticket, there are few options to increase income without risking OAS clawbacks.

One trick, however, is to generate the income inside a Tax-Free Savings Account (TFSA). The interest, dividends, and capital gains earned inside the TFSA are not taxed, and the money you remove doesn't count toward the net world income calculation the CRA uses to determine OAS pension recovery taxes.

The cumulative TFSA contribution space is currently as high as $63,500 per person.

Let's take a look at two dividend stocks that might be interesting picks for a TFSA portfolio heading into 2020.

BCE

BCE (TSX:BCE)(NYSE:BCE) has changed significantly in the past decade. The company has spent billions of dollars to build a media division that includes a television network, specialty channels, radio stations and sports teams. In addition, BCE has an advertising business and owns retail outlets.

At the same time, BCE is fortifying its competitive advantage in the wireless and wireline network operations. The company is running fibre-optic lines right to Canadian homes and commercial buildings. It is also adding new businesses in the areas of smart home services and security.

BCE generates strong earnings and sufficient free cash flow to maintain its steady trend of annual dividend growth. The payout is generous and provides a yield of 5%.

CIBC

Investors often bypass **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) when searching for a financial stock to add to their portfolios.

The company is the smallest of the Big Five Canadian banks and has a reputation for making big bets that end up going bad. That said, the stock probably deserves more respect today.

Management has done a good job of making acquisitions in the United States to add balance to the revenue stream. Additional deals south of the border would further diversify the operations away from the heavy reliance on Canadian housing loans.

CIBC remains very profitable, and the risks of a meltdown in the Canadian housing market have subsided in the past year.

CIBC is well capitalized, and the board raised the dividend when the company reported fiscal Q3 2019 results. The stock is up to $115 per share from $98 in August but still sits well below the 2018 high above $124.

At 10 times trailing earnings CIBC still appears cheap, and investors who buy today can pick up a 5% dividend yield.

The bottom line

A $63,500 TFSA portfolio split between BCE and CIBC would generate annual tax-free income of $3,175, or about $264.50 per month.

Diversification is always a good idea, and a couple could earn 5% from a basket of dividend stocks on the full $127,000 in TFSA room. This would result in about $529 per month without having to worry about triggering OAS clawbacks.

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Date
2025/07/31
Date Created
2019/11/28
Author
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