CPP Pension Users: 2 Crafty Ways to Avoid the 15% OAS Clawback

Description

If you're one of the many Canadians who are approaching retirement, you have probably heard of the Old Age Security (OAS) program.

While the Canada Pension Plan (CPP) tends to get more attention from soon-to-be retirees, make sure you master the OAS to maximize your income.

Without any OAS clawback, you could receive $613.53 per month, or $7,362.36 per year. This is precious money that can come in handy during your retirement years.

Once you start making more than $75,910 per year of income past the age of 65, you will begin getting taxed 15% on your OAS payment. If you make more than $123,385 per year, you won't receive any OAS payments at all.

Here are two ways you can reduce your income to try and avoid the OAS clawback.

Trigger your capital gains before age 65

If you have an investment such as a property that you are planning to sell soon, you might want to consider selling it before you are 65.

If there are a lot of capital gains on the investments and you sell it after you turn 65, this will almost assuredly wipe out the chance that you will receive any OAS payments at all for that year.

Defer your Canada Pension Plan

Your Canada Pension Plan (CPP) could be a significant source of income for you once you turn 65. If you get the maximum CPP, you could start receiving $13,854 per year if you reach 65.

You can defer the CPP until the age of 70. This will reduce your income between the ages of 65-70, which could put you under the OAS clawback amount. Deferring also has a bonus of increasing the amount of your CPP you will receive at age 70 to a maximum of $19,674 per year.

Increase your income by retirement

Having an OAS clawback is an excellent problem to have, because it means your income is high in retirement. A bigger problem is if you don't have any income in retirement at all.

A tried-and-true way to beat inflation and grow your assets is to invest in stocks. If you're a retiree, you want to invest in low-risk, dividend-paying stocks such as **Emera** (TSX:EMA).

The geographically diverse energy and services company is focused on finding new and innovative ways to ensure a cleaner environment for communities.

Aside from Canada, Emera has operations in the United States and four Caribbean countries. Notably, the company had stable earnings growth for almost three decades, which is why dividend payouts keep increasing since 1992.

With a very low beta of 0.25, you probably won't experience too many ups and downs during the next market crash. During the last big recession of 2008, the share price of Emera remained flat and did not crash at all.

With its hefty 4.45% dividend yield, Emera stock should also provide reliable income in retirement.

Conclusion

Having an OAS clawback is a good problem to have, so grow your income as high as you can using great stocks like Emera. Once you approach the OAS clawback income, look at simple strategies like delaying your CPP and triggering capital gains to try to reduce your income.

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Date
2025/07/21
Date Created
2019/12/14
Author
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