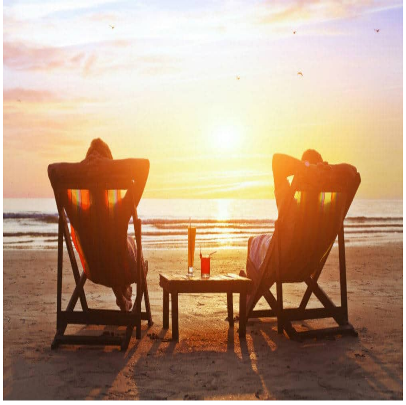

Retirees: 2 Ways You Can Dodge the 15% OAS Clawback in 2020

Description

The Old Age Security (OAS) program pays seniors in Canada who are 65 years old and above a monthly income. But retirees should know that there is an OAS clawback, which could lessen the amount you should receive. A qualified pensioner can receive $7,362.36 per year without the OAS clawback.

However, if the annual income after 65 is over $75,910, your OAS payment will be taxed by 15%. Should your yearly income exceed $75,910, the OAS payment due is zero.

Minimizing the clawback is vital because every dollar counts during retirement. There are two ways would-be retirees can avoid the OAS clawback.

Delay the CPP

One way to ensure that your income between 65 and 70 years old is under the OAS clawback amount is to delay your Canada Pension Plan (CPP) until age 70. The amount you will receive from the CPP will increase by 0.7% for every month of delay after age 65.

Maximize your TFSA

Another way to minimize the OAS clawback is to start maximizing your Tax-Free Saving Account (TFSA). Invest in blue-chip stocks like **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Telus** (TSX:T)(NYSE:TU). The bank stock and telecom stock are both Dividend Aristocrats.

TFSA users who are long-time investors of CIBC found out that the dividend earnings can compensate for the OAS claw back. This bank stock has a 151-year dividend track record, including the payouts during the 2000 and 2008 financial crises.

CIBC pays the highest dividend among the Big Five banks in Canada, with its 5.3% yield. A $100,000 investment returns $5,300 annually, or $441.67 monthly. If your investment time frame is 20 years, the money will grow to $280,910.40.

While CIBC is not the best-performing bank stock, income is rock-solid for the last four years. As the bank moves to diversify and expand its business internationally, the annual growth rate estimate over the next five years is 2.65%. Market analysts are forecasting the price to climb by 11.3% to $121 in the next 12 months.

Telus is one of the three titans in the monopolistic telecom industry. The stock is known as a Dividend Aristocrat because of its 15-year dividend growth streak. Also, the telecom's dividend growth rate over the last five years is 9.08%.

A TFSA user today with $100,000 worth of "T" shares within the account is earning $4,620 annually from the 4.62% yield. If the dividend remains constant, the value of the investment within a 20-year holding period comes out to $246,711.11.

Among the industry giants, Telus is the only telecom providing advanced technologies to support the healthcare system in Canada.

Through digital health technologies, this $30.4 billion company is helping improve healthcare efficiencies and enhance patient experiences.

In 2020, expect further growth in customer base once Telus synergizes the wireless and wireline business segments with its suite of digital solutions for the healthcare industry.

Counter the OAS clawback

Apart from deferring your CPP, retirees can minimize, if not avoid the OAS claw back by fattening the TFSA. The income investment from CIBC and Telus are all tax-free, while any withdrawals from the TFSA don't affect the clawback. But you should start this step before the OAS benefits begin when you reach 65.

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