Retirees: How to Generate an Extra $735 in Monthly Income and Protect Your OAS Pension

Description

Canadian pensioners are constantly seeking ways to boost retirement income without having to pay more taxes to the Canada Revenue Agency (CRA).

Rising costs are hitting Canadians of all ages, but retirees might be feeling the pinch more than others.

Property taxes, rent, utility bills, food, and travel insurance expenses are rising faster than inflation in many cases, and the increases to CPP or OAS payments often don't make up the difference.

Even for those who have decent company pensions, it is getting more difficult to make ends meet.

The challenge is to boost income without moving into a higher tax bracket or putting Old Age Security (OAS) pension payments at risk of a clawback.

The CRA imposes a 15% OAS pension recovery tax on every dollar of net world income that is earned above the annual threshold. For the 2020 tax year, the minimum income level is $79,054.

One way to generate more tax-free income is to take full advantage of the TFSA contribution limit and hold dividend stocks.

The TFSA space increased by $6,000 in 2020, giving each retiree as much as $69,500 in contribution space. That means a couple has up to $139,000 in potential investment room that can generate tax-free income that won't count towards OAS clawback calculations.

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

Inter Pipeline

Inter Pipeline (TSX:IPL) is a niche player in the Canadian midstream energy sector with a mix of assets that include conventional oil pipelines, oil sands pipelines, and natural gas liquids (NGL) extraction facilities.

The company also owns a bulk liquids storage business in Europe that has terminals in the U.K., Ireland, Sweden, Denmark, Germany, and the Netherlands. Utilization rates in Q3 2019 increased in the European operations, and that could help Inter Pipeline attract bidders for the division, which it might sell to help fund the Canadian capital program.

Inter Pipeline is building a $3.5 billion polypropylene complex. The site, known as the Heartland Petrochemical Complex, will convert low-cost propane feedstock into plastic used for manufacturing a wide variety of products. The development is targeted for completion in late 2021 and is expected to generate average annual EBITDA of at least $450 million.

Inter Pipeline's existing dividend should be safe, and investors could see an increase in the payout once the Heartland facilities are in operation. The board held the distribution steady in 2019 after raising it for 20 straight years.

At the current stock price, the dividend provides a 7.7% yield.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is Canada's third-largest bank. The stock is often overlooked by investors who prefer the larger peers, but that might be a mistake today.

Bank of Nova Scotia has invested heavily to build a strong business in Latin America with a focus on Mexico, Peru, Chile, and Colombia. The four countries make up the core of the Pacific Alliance trade bloc and are home to more than 225 million consumers. Banking penetration is below 50% in the combined markets, giving Bank of Nova Scotia strong growth potential in the coming years.

The bank remains very profitable, and investors should see the benefits from three recent acquisitions start to emerge now that the bulk of the integration process is complete.

Bank of Nova Scotia appears reasonably priced at less than 11 times trailing earnings, and investors can pick up a solid 5% dividend yield.

The bottom line

An equal investment in Inter Pipeline and Bank of Nova Scotia would provide an average yield of 6.35%. A portfolio holding these stocks, as well as others in the TSX Index that offer a similar yield, would generate $4,413.25 per year in tax-free income on a $69,500 TFSA portfolio.

A Canadian couple couple could earn $8,826.50. That's more than $735 per month.

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