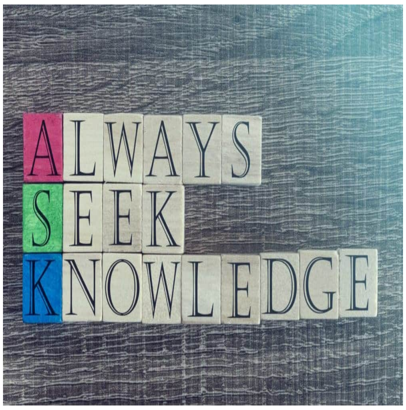

Retirees: Avoid the OAS Recovery Tax and Earn TFSA Income of $4,510/Year

Description

If you're nearing retirement and trying to maximize your income, you need to take advantage of all the "free" money the government will throw your way. You're probably well aware of the Canada Pension Plan (CPP).

Don't overlook the Old Age Security (OAS). You can potentially earn $7,362.36 per year from it, which is nothing to sneeze at.

You must beware of the OAS recovery tax though, also known as the OAS clawback. If you earn more than $123,385 per year in retirement, you won't receive any of your OAS. Here are some clever ways to pay less of this tax.

Delay your OAS payments

Not many people know this, but if your income is too high, you can defer your OAS when you turn 65 for up to five years. If your income will be high during ages 65 to 70, consider this strategy.

One benefit of this is that you will receive higher OAS payments. By delaying for one month, you will increase your pension per month by 0.6%. If you delay for the entire five years, you will receive 36% more per month of your OAS.

Another benefit of delaying your OAS payments is you will increase the ceiling of your income before the clawback kicks in. The previously mentioned ceiling of $123,385 per year will be increased, and you can still receive some OAS payments.

Focus on your TFSA

Your TFSA is your best tool against the OAS clawback. The reason is your TFSA does not count towards your income, so it won't affect your OAS calculation at all.

Make sure you're getting the most out of your TFSA. If you have any room in your TFSA, make sure you max it out before anything else. If you have any taxable investment accounts, move it over to your TFSA if there is room.

Grow your TFSA

You'll have to grow your investment accounts to have a comfortable retirement. Start with your TFSA by investing in great dividend-paying stocks such as **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP).

If you want a sustainable passive income that will last throughout your retirement, you should be investing in a company with predictable cash flows. Brookfield Renewable is one of the world's largest renewable energy companies. With alarming environmental news constantly in the media, Brookfield is leading the charge into a green and sustainable future.

Brookfield Renewable's renewable power platform is globally diversified. As of August 2019, the platform consists of wind farms (21%), hydroelectric generating facilities (75%), and utility-scale solar projects (4%).

The company has long-term, fixed-rate power-purchase agreements with clients in the utility sector. Because of these contracts, there are predictable cash flows that shield Brookfield Renewables from volatile power prices.

The stock's dividend yield is 4.51%, which should provide income throughout retirement. As an example, if your TFSA has grown to $100,000 and you invest it all in this stock, you'll receive around $4,510 in dividends alone per year. This is just an illustration, as you should diversify your holdings to more than one stock.

The steady cash flows are reflected in Brookfield's low beta of 0.59. As you're approaching retirement, you should invest in low-risk, dividend-paying stocks, and Brookfield fits the bill.

Conclusion

There are all kinds of strategies to reduce your income in retirement to avoid the OAS clawback. I hope you have just learned two simple strategies that could help put away thousands of extra dollars for your retirement.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

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