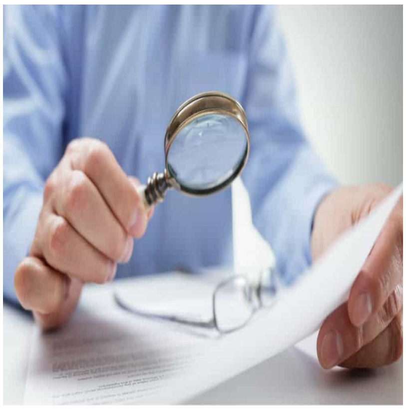

Retirees: How to Avoid OAS Clawbacks

Description

Retirees have their fair share of problems with a rock-bottom interest rate environment that makes it tough to find decent yields that are free from risk.

We're no longer living in a time where debt securities are sufficient to help the average Canadian retire in comfort. As a result, many retirees need to increase their willingness to take on more risk so that they can get the desired reward.

It can feel like today's retirees are between a rock and a hard place; the size of their OAS pensions after tax may well leave many recently retired Canadians disheartened.

Although one's nest egg can be used as an income stream to supplement pension payments, retirees must also be sure to ensure a tax-efficient allocation of their income-generating assets to avoid the dreaded OAS clawback.

Beware of clawbacks!

As of 2020, pensioners with a net world income above $79,054 will trigger a 15% clawback on funds exceeding the limit. The best way to avoid such clawbacks is to protect one's extremely-high-income-producing assets within a TFSA and move the cash from "high interest tax-free savings" into a non-registered account, where you'll pay a relatively negligible amount of tax on generated interest.

Within your TFSA, choose high-yield securities that can grow their dividends (or distributions) at an above-average rate, so you'll not only maintain your purchasing power, but you'll also set yourself up to receive generous annual raises to your income without having to worry about getting too close to the OAS clawback ceiling!

Consider shares of **Shaw Communications** (TSX:SJR.B)(NYSE:SJR), a "Steady Eddie" telecom titan that currently sports an attractive 4.6% dividend yield.

The dividend is pretty average given that there are much higher yielders in the world of telecoms, REITs, utilities, royalty companies, specialty income ETFs, and preferred shares.

I prefer Shaw over other generous income-paying securities because of the company's growth profile, which I believe is being heavily discounted by investors and analysts on the Street.

Shaw finds itself in a unique position in Canada's telecom scene that's ripe for disruption. As a fourth major wireless carrier in the Canadian market, Shaw is ready to take share away from the Big Three incumbents.

Shaw's strategy is to undercut on price, and although the incumbents can lower prices to compete and prevent substantial subscriber bleed, it's in their best interest to ride things out slowly so their margins (and stock prices) don't suddenly fall off a cliff.

While Shaw isn't a premium carrier, one can't help but pay merit to Shaw's longer-term growth runway and potential competitive advantages that could be granted by the federal government in a bid to bolster competition and thus deliver a better value for Canadian consumers who've been paying sky-high wireless and internet rates for far too long.

I like to view Shaw as a growth stock disguised as a stalwart. Over the next five years, I wouldn't at all be surprised to see Shaw's dividend growing at a much quicker rate than some of its bloated peers.

Shaw looks poised to rapidly raise the bar on its payout moving forward, and if you have shares in your TFSA, you won't have to worry about having your growing income stream triggering an OAS clawback — an easily avoided consequence of improper asset allocation.

Stay hungry. Stay Foolish.

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