Use Your TFSA to Build Wealth and Maximize the OAS Pension

Description

A key component of Canada's pension system is the Old Age Security (OAS) pension, which becomes available to Canadians who meet the legal status and resident requirements at age 65. The full basic benefit regardless of marital status is $613.53 per month, and this amount can increase because of guaranteed income supplements (GIS). If annual income is $79,054 or higher, the OAS clawback is triggered, whereby the benefit is reduced by $0.15 for every dollar in excess of the threshold amount. When yearly income exceeds $128,137, the OAS pension is reduced to zero.

Avoid the OAS clawback

For these reasons, it is important when planning for retirement to consider how to minimize your taxable income to maximize the pension benefits available. One way to do this is to establish a regularly recurring income stream from within a Tax-Free Savings Account (TFSA). This is because any income, capital gains, and interest received from an investment held in a TFSA are not typically counted toward taxable income, and all withdrawals are tax-free. By maxing out your TFSA, you can create a reliable non-taxable source of passive income, which isn't counted toward the OAS income threshold, and, upon being withdrawn from your TFSA, it is tax-free.

Compound investment returns

A top Canadian dividend-growth stock that belongs in every TFSA **Parkland Fuel** (TSX:PKI). The company is the largest independent fuel and petroleum products distributor in North America has a proven history of delivering value for shareholders. Through a series of accretive acquisitions, including **Chevron's** Burnaby refinery, Parkland has become one of the largest fuel distributors in North America.

A combination of organic growth initiatives and synergy captured from Parkland's accretive asset purchases has bolstered earnings and saw the company increase its 2019 EBITDA guidance at the end of the third quarter by 6% to $1.24 billion. Parkland also completed two further additions since the end of the third quarter 2019, which will further boost earnings during 2020.

What makes Parkland a particularly attractive stock for building long-term wealth in a TFSA is that it offers a dividend-reinvestment plan (DRIP), where not only can dividends be reinvested to acquire stock at no cost, but all shares purchased through the plan are issued at a 5% discount to their market value. That appeal is further enhanced by Parkland's wide economic moat, defensive characteristics, and exceptionally low volatility evident from its beta of a mere 0.47.

These attributes, along with a steadily growing monthly dividend, which Parkland has hiked for the last seven years straight to yield almost 3%, make it a top stock to own in any TFSA to build wealth. While past performance is no guarantee of future returns, Parkland has performed impressively over the last 10 years, delivering a 464% return if dividends were reinvested, which equates to a compound annual growth rate (CAGR) of 19%. Parkland's CAGR over that period falls to 15% if the dividends were taken as cash. That is an incredible rate of return, far exceeding the performance of many other stocks and traditional income-producing assets such as bonds and rental properties.

Foolish takeaway

By investing your 2020 $6,000 TFSA contribution in Parkland, adding $6,000 annually, and reinvesting all dividends, you could easily amass a handy lump sum of $210,000 in as few as 10 years. If you ceased reinvesting the dividends and took them as cash, you would be generating $6,195 annually in tax-free passive income, which wouldn't be counted toward the OAS pension income threshold.

Nonetheless, it is crucial to note that it is unwise to invest all your capital in a single stock and that diversification across companies as well as industries is an important tool for managing risk.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:PKI (Parkland Fuel Corporation)

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1. Business Insider
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