Planning for Retirement? Here’s How to Maximize Your CPP and OAS!

Description

Are you a retiree looking to maximize your CPP and OAS payments?

On the surface of it, there might not seem like much you can do.

CPP is based on the amount of money you contributed to the program while working (along with your retirement age), while OAS is a fixed amount minus repayments. That seems like all there is to it. However, there are ways to maximize the amount you get out of both programs. By taking certain steps, you can get higher payments from both CPP and OAS. Here’s how.

Take CPP later

Taking CPP later in life is the best way to maximize your CPP payments. The older you are when you take CPP, the more pension benefits you get out of it. You lose 7.2% of your possible benefits for each year you take CPP before age 65. So, it’s a good idea to wait longer to take CPP — unless of course you don’t expect to live much longer after retiring.

Get as many deductions as you can

Another thing you can do to increase your CPP and OAS is to claim tax deductions. The more deductions you claim, the lower your taxable income, and the less likely you are to have to repay OAS. Investing in an RRSP is a great way to get this benefit. By holding ETFs like the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) in an RRSP, you not only shelter the gains from taxation, but get an *income tax* deduction as well. This could make all the difference between having to repay OAS and not.

Invest as much as possible in a TFSA

Another thing you can do to avoid OAS repayment is to invest in a TFSA. TFSAs don’t offer tax deductions like RRSPs do, but they lower your investment taxes to zero. TFSA withdrawals also aren’t taxable, which is one benefit you don't get with an RRSP. So, by investing in a TFSA, you're less likely to have investment income push your taxes over the OAS recovery threshold.

Consider the case of an investor owning $50,000 worth of the XIU index fund in a TFSA versus in a non-registered account.

XIU pays a dividend that yields 2.76% as of this writing. That's enough to provide $1,380 in annual income with a $50,000 position. Held inside a TFSA, none of that income would be taxable. So, the investor would save on dividend taxes and potentially avoid having to pay the OAS recovery tax. The end result? Huge tax savings.

Now imagine that investor held XIU *outside* a TFSA or RRSP. Also imagine that they earned $76,580 in employment income in 2019. For the 2019 tax year, that would put them just $1,000 shy of having to pay the OAS recovery tax. However, the $1,380 in dividends would put them over the threshold and force them to pay back some OAS.

So, we can see that investing in a TFSA has two big benefits for retirees: it spares you dividend taxes and potentially saves you from OAS recovery taxes. It's a huge win on every level.

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1. Dividend Stocks
2. Investing

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1. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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Date
2025/08/27
Date Created
2020/03/05
Author
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