OAS Pension 101: How Retired Couples Can Earn an Extra $637 Per Month and Avoid CRA Clawbacks

Description

Canadian pensioners are searching for ways to boost their income without being hit with higher income taxes or a clawback by the Canada Revenue Agency on their OAS pensions.

Pension recovery tax

The CRA implements a pension recovery tax on Old Age Security payments when net world income tops a minimum threshold. The magic number in the 2020 tax year is $79,054.

The CRA imposes a 15% OAS clawback on every dollar above that amount. The process continues until the full OAS would be wiped out at the maximum income recovery threshold of $128,137.

Readers might think that this would only impact a small number of people, but it doesn't take long to reach the $79,000 threshold when a person is receiving full CPP, OAS, and a generous defined-benefit employment pension. In addition, people might be receiving RRIF payments from their previous RRSP portfolios. Income from any side gigs or investments held in taxable accounts are also added into the net world income calculation.

TFSA solution

Owning income stocks inside a TFSA portfolio is one way pensioners can avoid being hit with OAS clawbacks. The CRA does not tax income generated through TFSA investments and withdrawals do not count towards income. The TFSA contribution room is as high as $69,500 per person in 2020. That's large enough to build a decent income fund.

Which investments should you own?

Top-quality dividend stocks are cheap right now and provide attractive yield. Owning GICs carries less risk, but the Canadian banks are only offering GIC yields in the 1.5% range. That's below current

inflation.

Let's take a look at two stocks that might be interesting picks right now for a diversified TFSA portfolio.

Enbridge

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) is a giant in the Canadian and U.S. energy infrastructure industry. The company transports about 25% of the oil produced in the two countries and 20% of the natural gas consumed in the United States.

The stock is down in the past couple of weeks due to the broad-based drop in the energy sector. Falling oil prices are hitting oil and gas producers. Enbridge, however, simply transports the products and has limited direct exposure to changes in commodity prices.

The sell-off appears overdone, and investors can now pick up Enbridge at an attractive price. At the time of trading, the dividend provides a yield of 7.5%.

Enbridge expects distributable cash flow to increase by 5-7% per year and dividend hikes should be in that range.

BCE

BCE ([TSX:BCE](#))([NYSE:BCE](#)) is Canada's largest communications company with mobile and wireline assets that span the country. In addition, BCE owns media businesses that include sports teams, radio stations, a television network, specialty channels, and an advertising group.

The combined telecom and media assets make a powerful company that has the capability to interact with most Canadians on weekly, if not daily, basis. In fact, any time a person makes a call, listens to the news, sends a text, streams a movie, downloads a song, or sends an e-mail the odds are pretty good that a BCE asset is involved somewhere along the way.

The company raised the dividend by 5% in 2020. Ongoing hikes should be in line with growth in free cash flow.

The stock is down to $59 from $65 last month. That puts the dividend yield at 5.6%.

The bottom line

A balanced TFSA income portfolio of top stocks, including Enbridge and BCE, could easily generate a 5.5% yield today.

This would provide $3,822.50 in tax-free income on a $69,500 TFSA portfolio. A couple could earn $7,645. That's $637 per month that wouldn't put OAS payments at risk.

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Date
2025/07/29
Date Created
2020/03/11
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