Baby Boomers: How to Maximize Your CPP and OAS When You Retire!

Description

If you're a baby boomer and nearing retirement, one of the best things you can do financially is to maximize your CPP and OAS. While not everybody has a generous employer-sponsored pension, all working Canadians can take CPP and OAS when they retire.

Believe it or not, there are ways to maximize the benefits you get out of those programs. As you're about to see, by delaying retirement and investing strategically, you can increase what you get out of both CPP and OAS. Here are a few practical tips to do just that.

Delay taking CPP

By far the easiest way to boost your CPP is to delay taking it. According to some studies, [taking CPP at 60 as opposed to 65] means a 36% reduction in benefits. By waiting until 65, then, your annual payouts will be higher.

The exact amount depends on how much you paid in while working, but regardless of all other factors, you get more annual CPP benefits the longer you wait to take them.

Claim tax deductions

One great way to increase your OAS is to claim tax deductions. Common deductions include RRSP contributions, student loan interest and childcare. For investors, the most relevant of these is probably RRSP contributions.

By putting money in an RRSP, you get to claim that amount (up to 18% of your income) as a tax deduction. If your marginal tax rate is 30%, you can save $3,000 on a $10,000 contribution.

As well, your deduction could keep you from having to pay back OAS. For 2020, you have to start paying back OAS if your income goes above $77,580.

By making RRSP contributions, you lower your taxable income and potentially avoid having to make those payments. The end result? More OAS benefits you can take home.

Invest in a TFSA

Another thing you can do to maximize your OAS is to invest in a Tax-Free Savings Account (TFSA). TFSAs shelter your investment income from taxation, and lower your taxable income in the process. This is another way to avoid paying the OAS recovery tax.

Consider the case of an investor holding $50,000 worth of the **iShares S&P/TSX 60 Index Fund** (TSX:XIU) in a TFSA. At current prices, XIU yields 3.2%, which means that it pays $1,600 on every $50,000 invested. By holding those shares in a TFSA, the investor can earn the dividends and withdraw them without worrying about tax consequences.

Now imagine that this investor held his or her shares *outside* a TFSA. In that case, not only would this person have to pay taxes on the dividends, but the taxable income would also increase by $1,600.

If, prior to investing, the investor earned around $77,000, that $1,600 in dividend income could easily force them to pay the OAS recovery tax.

Conversely, if they'd kept their shares in a TFSA, they'd be in the clear.

Bottom line

If you're close to the OAS recovery threshold, investing in a TFSA could help you keep more benefits.

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