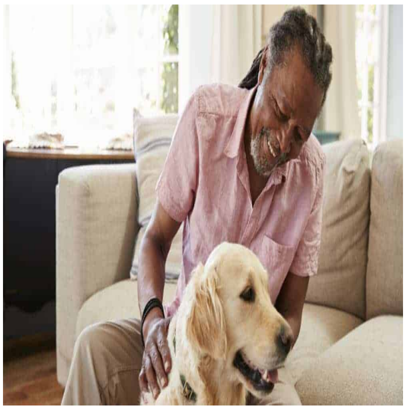

Pensioners: How to Earn an Extra $3,822.50 Per Year and Avoid OAS Clawbacks

Description

The stock market crash is giving Canadian retirees a great opportunity to build a tax-free income portfolio.

TFSA advantage

Canadian residents have as much as $69,500 in contribution room available inside their TFSA. A couple would have up to $139,000 in TFSA space available to hold investments.

All income generated inside the TFSA is tax-free. In addition, any gains that are removed from the TFSA go straight into your pocket. This is great for all investors, but it is particularly attractive for seniors.

Why?

Anyone receiving an OAS pension has to watch their income level. The CRA implements a pension recovery tax on OAS payments once net world income breaks above a minimum threshold. This amount is $79,054 for the 2020 tax year. All income above that level is subject to a 15% recovery tax, commonly called the OAS clawback.

However, the CRA doesn't count TFSA income when it calculates net world income.

With the TFSA contribution space climbing every year, retirees can hold larger amounts of income-generating investments. The market rout is turning top-quality dividend stocks into high-yield plays.

Let's take a look at one company that might be an interesting pick to start a balanced TFSA income portfolio right now.

TD

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is a leader in the Canadian banking sector. It is also a major player in the United States.

The American operations have grown significantly over the past 15 years through acquisitions that gave TD a presence from Maine right down the east coast of the country to Florida.

The sale of the TD Ameritrade partnership makes the American presence smaller, but the retail banking operations remain in place. A series of rate cuts by the U.S. Federal Reserve last year put pressure on TD's net interest margins in the U.S. business and that led to lower-than-expected earnings from the group in fiscal Q1 2020. The latest cuts by the Fed and the Bank of Canada will likely compound that issue.

Nonetheless, TD remains a very profitable business. The company earned adjusted net income of $3 billion in the quarter, representing 4% increase over the same period last year.

Any business that can churn out a billion dollars in profits per month in challenging market conditions deserves to be on your radar.

TD has a strong capital position with a CET1 ratio of 11.7%. This means the bank has the reserves in place to ride out difficult times. The fall in interest rates will put pressure on net interest margins, but they should also support new borrowing as companies and households will be able to access cheaper funds for investment.

The decline in bond yields is enabling the banks to offer lower mortgage rates. This brings more buyers into the housing market and helps existing mortgage holders renew a favourable rates.

An economic slowdown is anticipated in the coming months and potential job losses are a concern. The reduced borrowing costs will help businesses and consumers pay the bills.

The federal governments in Canada and the United States are expected to put aggressive fiscal programs in place to help cushion the economic blow from the coronavirus. Once the market gets through the next few months, the impact could be a new growth phase in the economy.

In that case, TD should enjoy the benefits.

At the time of writing, the stock trades at $54 per share, putting the price-to-earnings multiple at an attractive 8.1 times trailing 12-month results. The dividend should be very safe and investors can pick up a 5.85% yield.

The bottom line

A portfolio of top dividend stocks could easily generate a yield of 5.5% right now. In a $69,500 portfolio that would generate $3,822.50 in annual tax-free income that would put OAS payments at risk.

A couple could generate $7,645!

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