Use This 1 Effective Strategy to Counter the OAS Clawback

Description

The Old Age Security (OAS) clawback has a crushing effect on Canadian retirees. No retiree wants to give up a portion, or all, of their modest OAS benefits and pay the recovery tax. But retirement planning experts have a solution for people who are upset about the OAS clawback ruining their retirement.

Shrinking your Registered Retirement Savings Plan (RRSP) is one of the strategies you can use to counter the OAS clawback effectively. If successful, you can ensure that your total income is below the threshold. Thus, you get to keep all of your OAS benefits.

Shrink your RRSP

The first order of the day is to make sure you don't trigger the OAS clawback. Having too much in your RRSP is sometimes a disadvantage. The danger is that your assets in the RRSP will keep accumulating even as you start withdrawing from the plan.

Assuming you turn 71 and convert your RRSP into a Registered Retirement Income Fund (RRIF), you might find difficulty in meeting the required annual minimum withdrawal. This can put you into OAS clawback territory.

The rule of thumb in retirement planning is to park your money in a tax-sheltered retirement account. The shrinking strategy, however, strays from this conventional approach. In your early retirement, withdraw more than you need from your RRSP. Pay the tax due then place it in a Tax-Free Savings Account (TFSA).

Your main objective is to keep the value of your RRSP in check. When your RRSP shrinks, you place yourself in a position where you can withdraw less from your RRIF. The result is an income far from the clawback range.

Move funds to the TFSA

The excess withdrawals from your RRSP should go into a TFSA. You can use the money to invest in high-yield dividend stocks like **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). This $15.73 billion oil and gas midstream company offers a market-beating 8.78% dividend.

A $6,000 investment that is equivalent to the TFSA annual contribution limit for 2020 can produce $526.80 in passive income in one year. If you have $50,000 to spare, the tax-free dividends can be $4,390. In eight-and-a-half years, the value would be more than double.

As of writing, the price per share of Pembina is $28.71. Thus far, the energy stock is down by 39.88%. The massacre of energy stocks is ongoing due to the epidemic and collapse of oil prices last week.

Recent insider transactions, however, are a sign of confidence in the company. Pembina's president, Michael Dilger, bought $791,000 worth of stock at a purchase price of $31.62. Over the last year, insiders bought around $3.5 million worth of Pembina shares.

Pembina had a profitable 2019. For the full-year, the company's adjusted EBITDA grew to $1.85 billion or 9% higher compared with the previous year. Despite the headwinds facing the energy sector in 2020, Pembina foresees a 30% increase in annual adjusted EBITDA over the next five years.

Make the effort

Shrinking the RRSP is just one of the many ways to counter the OAS clawback. If you don't want to be penalized or lose your OAS benefit, seeking advice from professional retirement planners could be worthwhile.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

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