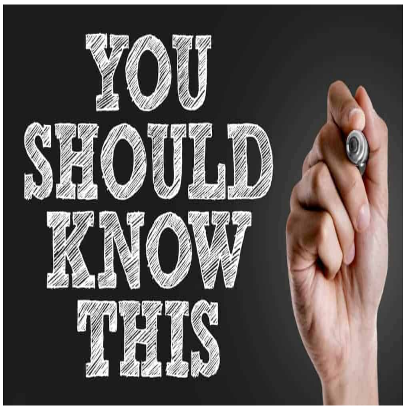

Retirement Planning: 1 Number You Need to Know to Prevent OAS Clawbacks

Description

Making a lot during retirement sounds like a great problem to have. However, it can lead to a clawback of benefits if you receive Old Age Security (OAS) payments. For retirees, it can be frustrating to receive money from the government only to have it clawed back later.

Retirees can protect themselves by knowing the limit and planning ahead

The number that's important for retirees to be familiar with is the minimum income recovery threshold. When your income is above this amount, that's when the government is going to start clawing the OAS back. It rises a little every year. In 2019, this minimum threshold was $77,580, and in 2020 it's up to $79,054.

If you're receiving OAS payments, it's that threshold that you'll want to be familiar with. Making more than that amount will result in a clawback of 15% over that amount. For instance, if in 2020 you make $89,054, you're $10,000 over that threshold. Your future OAS payments would then be reduced by 15% on the difference. At $10,000 x 15%, that's a $1,500 that will effectively be clawed back.

To avoid a clawback, retirees who plan to work should calculate how much they expect to make in a given year. And if it's well above that threshold, it may make sense to defer receiving OAS payments and instead receive more later on. Another tool retirees should consider is using a Tax-Free Savings Account (TFSA).

Use a TFSA to add income and avoid clawbacks

One of the big advantages of using a TFSA is that any income that you earn inside the account is not taxable. It can be a way to increase your income without having to worry about clawbacks and reductions in benefits. And there are many good stocks you can invest in that will not only appreciate in value but that pay dividends as well.

A good option for investors is **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock. Although the markets are having a rough 2020, and RBC is no exception, it doesn't change the fact that it'll likely rise in value, and long-term investors can earn some great returns from owning the bank stock. With a beta value of around one, shares of RBC generally move in the same direction as the TSX and experience the same amount of volatility. But as long as the economy is doing well, RBC will perform well.

In addition, the bank offers investors a dividend as well. As a result of the sell-off in the markets of late, investors can earn more than 5% depending at what price they buy shares of RBC. That's a terrific payout, and what makes it even better is that RBC and the big banks typically increase their dividend payments over the years. That means that years from now, you could earn more on your initial investment, and your effective dividend yield will be much higher.

Investing in RBC stock is a good way to earn quarterly dividend income while also owning shares of a top bank stock on the TSX that's likely to rise in value.

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Date
2025/08/21
Date Created
2020/03/21
Author

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