TFSA Pension: A Top Canadian Dividend Stock for Retirees Who Want to Avoid OAS Clawbacks

Description

Top Canadian dividend stocks now offer yields that investors haven't seen since the Great Recession.

TFSA investing

Retirees are among the top buyers of dividend stocks, and the emergence of the Tax-Free Savings Account (TFSA) more than a decade ago has helped seniors put more money in their pockets.

How?

Any income generated inside a TFSA isn't taxed. In addition, the CRA does not use any of the money taken out of the TFSA to calculate net world income when determining OAS clawbacks.

This is a big deal for retirees who might have generous company pensions, CPP, OAS, and even RRIF payments.

The OAS clawback kicks in at $79,054 for the 2020 tax year. Every dollar in income above that amount triggers a 15 cent OAS pension recovery tax.

Best dividend stocks today

The market crash is serving up juicy yields across the **TSX Index**. Dividend cuts are likely on the way in some sectors, so investors need to be careful. Generally, you want to own companies that provide essential services with strong track records of delivering steady dividend growth supported by rising revenue and profits.

Let's take a look at one stock that might be an interesting pick for a TFSA income fund today.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) is Canada's largest financial institution by market capitalization. It's also among the top 15 in the world.

The bank has a strong capital position with a CET1 ratio of 12%, which should be adequate to get it through the pandemic downturn, but we are in unprecedented time.

As an added support, the Canadian government is providing the country's banks with added liquidity through $150 billion in mortgage purchases. Ottawa is also providing guarantees on new loans through partnerships with EDC and BDC.

Risks?

Widespread unemployment due to the coronavirus is already above estimates, and the coming months will be difficult for homeowners and businesses alike. Defaults will certainly rise, and a wave of residential and commercial property listings could trigger a meltdown in prices.

In an effort to minimize personal and company bankruptcies, the Canadian government is putting measures in place to support people who are out of work and provide aid to businesses during the current economic downturn. We will have to see if the efforts have the desired impact in a timely manner.

Upside

Despite the near-term uncertainty, however, Royal Bank should be able to ride out the storm.

The institution generated nearly $13 billion in adjusted profits in fiscal 2019, and a good chunk of the revenue stream is secure. While the 2020 results could be lower, investors could see a strong recovery in 2021.

The company has invested heavily in its digital banking operations in recent years, which should help Royal Bank serve its large customer base during the current downturn.

Royal Bank trades at $86 per share compared to $108 in February. Investors who buy the stock today can pick up a 5% yield. The dividend should be very safe and you have a shot at some nice upside in the stock price when the recovery occurs.

The bottom line

Retirees with some cash sitting on the sidelines can use the TFSA to generate income that won't put OAS payments at risk. Royal Bank offers an attractive yield and should be a solid buy-and-hold pick.

The **TSX Index** is home to many top-quality dividend stocks that appear cheap right now and should continue to deliver strong dividend growth in the coming years.

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