



## TFSA Pension Plan: How to Earn Tax-Free Retirement Income

### Description

Retirees pay tax on company pensions, CPP, OAS, and RRIF payments. They also pay tax on earnings from side gigs, rental properties, and income generated on investments in taxable accounts.

### Avoiding OAS clawbacks

Not all seniors spend the full amount of their after-tax earnings, so they need a place to invest the funds. Ideally, this would be in a tax-free account.

Why?

One issue pensioners need to consider is the OAS pension recovery tax. The CRA implements a [clawback](#) on OAS pension payments when net world income tops a set annual amount. The threshold in 2020 is \$79,054.

Putting the extra cash into a TFSA solves the problem. The safe option would be to stick the money in GICs. This protects the capital, but GICs from the big banks only provide 1-2% returns right now. Another option to consider is top [dividend stocks](#). Yields from industry leaders currently sit above 6% in many cases. The dividends can be reinvested tax-free or taken out to cover monthly living costs.

Using the TFSA is a great way to keep the investment and savings income beyond the reach of the CRA, while also protecting OAS pension payments.

### Top stocks

The best companies to own tend to have long track records of dividend growth. They are often industry leaders and enjoy a measure of market protection due to the nature of their business and assets. In the current environment, it also makes sense to seek companies that provide essential services to the economy.

Let's take a look at one top dividend stocks that appears cheap right now and might be an attractive pick for a TFSA pension fund.

## Enbridge

**Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) streamlined its corporate structure and shored up the balance sheet in the past couple of years.

The sale of nearly \$8 billion in non-core assets helped position the firm to move ahead on planned capital projects. This means shareholders shouldn't have to worry about a large stock issue to finance growth in the near term. Enbridge has \$14 billion in available liquidity to help it ride out the recession.

The plunge in the oil market in 2020 triggered a drop in production, and Enbridge's core liquids pipeline system saw a decrease in volumes in recent months. Throughput should rise again in the second half of the year, as the opening of the economy will boost demand for crude oil feedstock needed by refineries.

Enbridge reaffirmed its 2020 guidance for distributable free cash flow when it provided the Q1 2020 earnings report. As such, the dividend should be very safe.

Investors who buy today can pick up a yield of 7.3%.

The stock trades at \$44 per share compared to \$57 in February, so there is attractive upside potential, and you get paid well to wait for the economy to recover.

## The bottom line

Retirees have an opportunity to put some cash to work and earn above-average yield from top dividend stocks.

The TFSA limit is now \$69,500 per person. This provides ample space to build a solid income portfolio. Using the TFSA ensures the earnings don't bump you into a higher tax bracket and protects the income from being used by the CRA for the OAS clawback calculation.

### CATEGORY

1. Dividend Stocks
2. Investing

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

## PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

## Category

1. Dividend Stocks
2. Investing

## Tags

1. Editor's Choice

## Date

2025/08/21

## Date Created

2020/05/27

## Author

aswalker

default watermark

default watermark