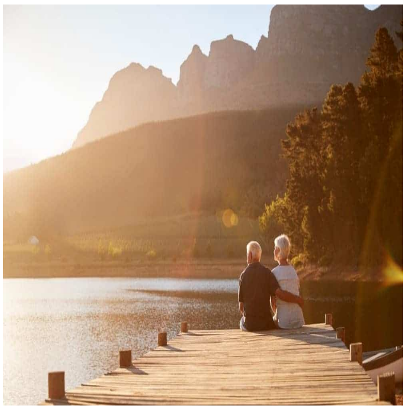

Retirees: How to Live Comfortably With Just CPP and OAS Payments

Description

Many Canadians are moving towards retirement with only a fraction of what is needed to guarantee a comfortable retirement based on their current income. A significant portion have failed to stash anything away for their retirement. This is not the ideal scenario, but it is not the end of the world. Today, I want to discuss how retirees can still live in comfort while only relying on CPP and OAS payments. Let's dive in.

Retirees: Beat back the OAS clawback

Old Age Security (OAS) is the largest pension plan in Canada. The monthly payment is available to seniors aged 65 and older. However, OAS payments are considered taxable income. This can be a nagging issue, especially for those who are reliant on every little bit of income from the CPP and OAS. In a previous article, I'd discussed a **Sun Life** survey that revealed the "frugal" lifestyles of a large portion of Canadian retirees.

First, let's explore how we can mitigate the impacts of the OAS clawback.

Consider income splitting

Income splitting is a popular avenue for retirees to obtain tax relief. If one's spouse has a lower income, you can transfer up to 50% to that spouse to reduce your overall income. Retirees can split their pension and other income like annuity payments, Registered Retirement Income Fund (RRIF) payments, and Canada Pension Plan (CPP) payments.

There is also the possibility of RRSP withdrawals, which can reduce the OAS clawback. Canadians can withdraw funds from their RRSP in the leadup to the 65-year age mark if they pass through periods of lower taxable income. OAS benefits may increase due to a reduction in RRSP funds.

Optimize your post-retirement life

So, we have managed to mitigate the OAS clawback. However, modern life is expensive in Canada. Retirees who are reliant solely on CPP and OAS payments may want to consider downsizing. This can help create extra wiggle room in retirement. The maximum OAS benefit in 2020 is only $613.53. Meanwhile, the maximum monthly CPP payment is $1,175.83 per month for new beneficiaries. Canadians in this position will want to avoid as many unnecessary payments as possible.

Retirees: Don’t forget to utilize your TFSA

Retirees in this position should look to build other passive-income streams. For example, in a Tax-Free Savings Account (TFSA). Canadians in retirement should target stable dividend stocks that have a history of income growth. **Hydro One** is a utility that boasts a monopoly in Ontario. Its shares have climbed 7.7% in 2020 as of early afternoon trading on June 4.

Hydro One stock last had a favourable price-to-earnings ratio of 19 and a price-to-book value of 1.7. The company last delivered a quarterly dividend of $0.2415 per share. This represents a 3.8% yield. Hydro One has achieved dividend growth in every year since its initial public offering. Retirees can count on this utility to generate income while offering stability in the long term.

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