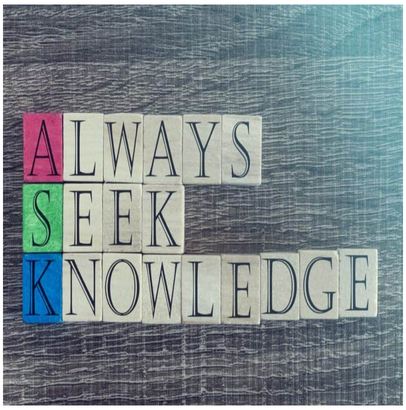


OAS 101: All You Need to Know About Canada's Largest Pension Program

**Description**

The Old Age Security (OAS) program is the Government of Canada's largest pension program. The Canadian government funds the OAS by general tax revenues, which means you do not contribute to this program directly.



The OAS pension is a monthly payment available for residents aged 65 or older. In order to be eligible for the OAS, you need to be a Canadian citizen or a legal resident having spent at least 10 years in the country since the age of 18.

## What *is* the maximum OAS payout?

In order to qualify for the maximum OAS payouts, the applicant must have lived in the country for at least 40 years after the age of 18. In case this criterion is not met, eligible OAS applicants will receive a partial pension.

The partial OAS pension is calculated at the rate of 1/40th of the full OAS pension for each complete year of residence after the age of 18. For example, if you stayed in Canada for 30 years after your 18th birthday, you will qualify to receive 75% of the full OAS pension.

The OAS payouts are adjusted every quarter based on the consumer price index. For the second quarter of 2020, the maximum monthly OAS payment is $613.53.

## OAS deferral and clawbacks

While Canadians can apply to receive the Old Age Security payments at the age of 65, they can also defer these payouts for a period of five years. This deferral will help them receive a higher payout at a rate of 0.6% per month. It means if you defer this pension payment by five years, the OAS will increase by 36%.

The Canada Revenue Agency (CRA) can levy a tax on your Old Age Security payout in case your annual net income exceeds the threshold limit. This threshold limit for 2020 is $79,054. So, in case you earn over 79,054, the CRA will levy a 15% tax on your OAS. Further, the CRA will recover your entire Old Age Security amount if the net income exceeds $128,137.

## Pension amounts are insufficient for retirement

We can see that the maximum OAS pension payment is not really sufficient to lead a comfortable life in retirement. You need to create a stable source of recurring income to supplement pension programs such as the OAS.

One way to create a predictable revenue stream is by investing in dividend-paying ETFs such as the **BMO Canadian Dividend ETF** (TSX:ZDV). Investing in ETFs is appropriate for individuals who do not have the time or expertise to pick individual stocks.

An ETF holds a basket of stocks (generally across sectors) that diversifies your portfolio and mitigates risk. The ZDV has exposure to top-quality Canadian dividend-paying stocks such as **Enbridge**, **Bank of Nova Scotia**, **BCE Inc.**, **Telus Corp,** and **Emera Inc**.

Due to the ongoing uncertainty in the macro-environment, the ZDV has fallen over 17% in 2020. This has increased its dividend yield to a tasty 5.6%.



So, if you invest $100,000 in this ETF, you will generate $5,600 in annual dividend income. Due to the recent pullback, long-term investors stand to benefit from capital appreciation as well.

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araghunath