Retirees: 3 Ways to Avoid the OAS Clawback

Description

All Canadian seniors receive the Old Age Security (OAS) pension from the government. The payment of this universal retirement pension starts on your 65th birthday. However, the OAS has a recovery tax or clawback component. It is a way to prevent low-income seniors from accessing more than the basic amount of government support.

Retirees will receive less when net income exceeds the income threshold. The set government sets the limit and updates it yearly. The OAS clawback is equivalent to 15% of taxable income over the threshold.

If you're a retiree and any amount of deduction is material to you, there are proven ways to avoid the OAS clawback. You get to retain 100% of the monthly payments.

Defer OAS

Seniors have the option of deferring OAS pension for up to five years from age 65. The benefit is that you will receive 36% more of the monthly pension later with at age 70. The deferral strategy works if your income level between ages 65-70 will trigger the OAS clawback.

Usually, seniors who defer the Canada Pension Plan (CPP) also defer the OAS to receive higher payments from both.

Timely RRSP withdrawal

If push comes to shove, early withdrawal from your Registered Retirement Savings Plan (RRSP) before you reach 65 years old can help duck the OAS clawback. You can use this strategy during periods when your taxable income is low.

The effect of reduced RRSP funds is higher OAS benefits. Keep in mind, however, that RRSP offers tax-free money growth. Taxes are still due when you withdraw from the fund.

Maximize TFSA

The Tax-Free Savings Account (TFSA) is the tried and true tool to minimize your taxable income. Since all earnings or gains are tax-free, you don't have to worry about triggering the OAS clawback. Besides, investment income doesn't count as taxable income.

Tax experts recommend maximizing your TFSA by holding most types of investment assets in the account. Dividend stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) or RBC is a solid choice. Retirees would have a stable and dependable income-provider for life.

The largest bank in Canada has a big global footprint. Wealth management is also the strong suit of this $131.44 billion bank. The annual growth is about 7% to 8%. Furthermore, its loan books are decent.

Uncertainty surrounds nearly all sectors at present. For banks, credit and write-downs are the primary concerns. RBC knows the unprecedented challenges ahead. The bank increased its credit loan provision by $2.4 billion from last year that resulted in a 55% drop in net income in Q2 fiscal 2020.

The current price of $92.36 is a good entry point, while the 4.67% dividend is above the market average. Your $25,000 investment can generate $1,167.50 in passive income for decades.

Retirees are getting smarter

The OAS is as old as time, and the program ensures that Canadian seniors have a minimum income. While you can't waive or do away with the OAS clawback, higher-income retirees can find ways to compensate for the tax, minimize the impact, or avoid it altogether.

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