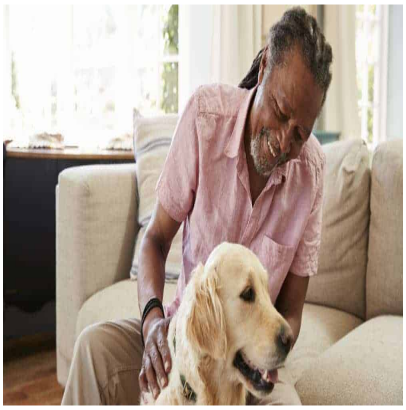

CPP Pensioners: 2 Tricks to Avoid OAS Clawbacks

Description

Whether you're about to retire or not, you're likely aware of the Canada Pension Plan (CPP) and Old Age Security (OAS). We pay taxes into them, and you'll have seen CPP on your tax form from the time you first started working.

Yet CPP is the one that gets most of the attention, and it's likely because it simply has the word "pension" in it. Meanwhile, it's actually OAS that you should start looking into. If you make under $128,149, then, as of writing, you can receive $614.14 per month. That comes to $7,369.68 per year in income. There are cases where that number is higher or lower, but it is mainly still this number.

But here's where it gets tricky. If you make more than $79,054 for 2020, then comes the clawbacks. These clawbacks take off 15% of every dollar you make over this maximum. That's $0.15 off of every dollar of your income! If you make that $128,149, that means you'll be taxed $7,364.25, making your OAS pretty much worthless.

So, here is how you can avoid those clawbacks.

Capital gains

If you have investments that could trigger capital gains, it's best to get that all out of the way before 65. If you take on those funds before 65, you can put it in a safe place that you don't have to claim on taxes in the future. That way, you could keep your total household income to a minimum for OAS.

Where should you put those funds? Put them in a Tax-Free Savings Account (TFSA). That money cannot be taxed by the government, and you have $69,500 of contribution room to put aside those capital gains. That's at least a start to keep those funds safe from the tax man.

Delay CPP

The longer you can delay CPP, the better. If you take it at age 60 when you can, all is well and good.

However, if you can delay claiming CPP until you're 70, that will increase your payments by 42%! This would also reduce your income between age 60 and 70, meaning you have less to claim from OAS.

If you take out your CPP at 65, you'll receive $14,109.96. However, delaying until 70 boosts that up to $20,036.14! Add on OAS, and you could have a total of $27,405.82, or $2,283.82 per month.

Next steps?

Invest. Just over $2,000 isn't enough to live on for the rest of your life. You'll need to continue living off of your savings and investments for years to come. With the average Canadian living well into their 80s, and likely longer in the coming years, it's a great time to find some passive-income producers.

A perfect option is **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). Pembina is providing the solution to the oil and gas glut, with a multitude of upcoming projects to create pipelines across North America. The company is supported by long-term contracts, so it already has the funds available to create these projects, and keep its dividends growing.

Right now, the company has a dividend yield of 8.45%! It's hard to find such a solid stock with such a high dividend yield. If you were to invest just $30,000 into this stock, that could bring in $2,606.89 per year in passive income.

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