Pensioners: Earn an Extra $318.50 per Month — and Avoid the OAS Clawback

Description

Canadian retirees must keep the OAS clawback in mind when generating extra income.

OAS clawback 101

The Canada Revenue Agency hits retirees with a pension recovery tax on OAS payments when net world income top a minimum threshold. In 2020 the number to watch is $79,054.

Every dollar in income earned above that amount triggers a 15 cent OAS clawback. The recovery tax continues to add up until net world income reaches the maximum threshold. That amount is $128,149 for the 2020 income year.

At this point the full OAS pension gets hit, which means the OAS due in the following period (July 2021 to June 2022) is reduced by the pension recovery tax. In the event the CRA does not raise the OAS amount next year, the person would effectively not receive any OAS benefits.

Life isn't getting any cheaper for Canadian seniors. Depending where a person lives, things like property taxes, utilities, and food expenses can increase much more than the rate of inflation determined by the Consumer Price Index (CPI). The CRA uses the CPI to determine increases for CPP and OAS payments each year.

It doesn't take long for the monthly budget to get tight, even on a decent pension.

Retirees typically get income from CPP, OAS, company pensions, RRSPs, and RRIFs. In addition, they might receive income from investments in taxable accounts, a part-time job, or other ventures.

Unfortunately, all of these income sources are taxable and count toward the CRA's net world income calculation used to determine the OAS clawback. Once income goes above the minimum threshold, pensioners take a double hit. The extra income might push a person into a higher marginal tax bracket while also reducing the OAS pension.

TFSA solution to avoid the OAS clawback

One way to boost earnings without putting the OAS at risk of a clawback is to generate the income inside a Tax-Free Savings Account (TFSA). Since inception, the cumulative TFSA contribution limit has grown to $69,500 per person. This means a retired couple would have as much as $139,000 in TFSA space to invest savings and earn tax-free income.

Getting decent returns is another challenge. The major banks offer less than 1% on a GIC right now, which doesn't even offset inflation. Fortunately, a number of Canada's top dividend stocks currently trade at attractive prices and offer above-average yields.

Stocks carry risk as the share prices can be volatile. Over the long run, however, well-established names tend to deliver great returns and raise their payouts at a steady pace.

Best stocks to buy for a TFSA

It makes sense to look for companies with long track records of dividend growth supported by rising revenues.

Bank of Montreal (TSX:BMO)(NYSE:BMO) would be a good example. The bank paid its first dividend in 1829 and has given investors a piece of the profits in each of the past 191 years. Bank of Montreal survived every major financial crisis over that time and is positioned well to ride out the pandemic.

Despite the ongoing challenges, the bank remains profitable. While the dividend might not go up in the next few quarters, it should be very safe. Bank of Montreal's stock isn't as cheap as it was in the spring, but still trades at a reasonable price for buy-and-hold investors. At the time of writing, Bank of Montreal provides a 5.35% dividend yield.

The bottom line

A balanced portfolio is always recommended and the **TSX Index** is home to many attractive dividend stocks. Getting an average yield of 5.5% from top names is quite easy today. This would provide $3,822.50 per year on a $69,500 TFSA portfolio. That's $318.54 per month that won't trigger an OAS clawback!

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date
2025/07/21
Date Created
2020/11/02
Author
aswalker