CPP Pensioners: How to Get $3,224 Tax-Free Per Year and Avoid OAS Clawbacks!

Description

When you're retired, *income* is the name of the game. CPP and OAS are a start, but they likely won't fully cover your expenses. So you need investments that produce solid income every single month. With interest and dividends, you can earn that comfortable living that the CPP alone doesn't quite provide.

Unfortunately, with investment income comes the potential for OAS clawbacks. Every year, there's a certain income threshold above which your OAS is reduced. For 2019, it was $77,580. The threshold tends to increase over time. Investment income counts as personal income, so it can push you over the OAS threshold.

The good news is that you can easily avoid having investments take your OAS income away. By investing in a certain tax-free account, you can possibly avoid OAS clawbacks entirely. Not only that, but this account spares you direct investment taxes too.

So what is this account, and why is it so great for retirees?

The Tax-Free Savings Account (TFSA)

The TFSA is a special account that lets you hold investments tax-free. You pay no taxes on dividends and capital gains in the account. That's a big enough benefit as it is. But TFSAs have a second powerful feature: *withdrawals* are tax-free, too.

Growing investments tax-free is nothing new. RRSPs have allowed that for decades. But RRSPs are taxed heavily on withdrawal. The TFSA, on the other hand, is *never* taxed–*ever.* This makes it a perfect account to invest in when you're *already* retired and further RRSP contributions stop making sense.

How much income you could earn

By investing in a maxed-out TFSA, you could earn up to $3,225 per year tax free. The math on that is very simple.

Imagine that you held **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock in a TFSA. That's a dividend stock with a 4.64% yield. In other words, you get 4.64% of your investment back in cash every year.

In 2020, you can contribute up to $69,500 to a TFSA. If you invested all of that in Royal Bank stock, you would earn $3,224 in tax-free dividends every year.

Simple, right?

In theory, yes. The only caveat is that you shouldn't actually invest your *entire* TFSA balance in Royal Bank stock. Putting all your money in one stock increases your risk level. Royal Bank is a high yield stock, but it's susceptible to many risk factors, including changing interest rates and loan defaults.

To protect yourself against these risks, you'd need to spread your money across Royal Bank and several other stocks that don't face these risks. This is called *diversification*, which reduces the risk you face in holding just one investment.

However, the math above still works. Royal Bank is far from the only stock with a 4.6% yield. High yields are common in several industries like banking, utilities and REITs. By building a diversified portfolio of such stocks, you can get the $3,224 per year just mentioned–*and* with much lower risk. On top of that, holding the portfolio in a TFSA could spare you the dreaded OAS clawback.

Talk about a win-win.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
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