What if You Earn More Than $79,845 in 2021? Your OAS Payments Will Get Clawed Back

Description

The government designed the RRSP and the TFSA accounts so that people save for their retirement and grow their retirement savings/investments in a tax-deferred environment. Out of the two accounts, the RRSP is designed exclusively for retirement savings, and its tax-deferred nature was designed under the assumption that people will be in a lower tax bracket than in their retirement years.

Contributions to both the RRSP and TFSA are voluntary, so you can choose to save nothing for your retirement (which is not advisable). And even if most people save for their retirement, they might not be able to save enough. This is why the government came up with two pension plans to ensure that you'll have at least two consistent income sources in retirement.

These two plans are CPP and OAS, and out of these two, the OAS comes out of the federal government's pocket. It's funded from tax revenue. In order to ensure that the OAS pension is going to the retirees most in need, there is a clawback stipulation.

OAS repayment threshold

The Old Age Security (OAS) is a consistent retirement income source that you automatically start receiving (if you are eligible) when you turn 65. However, you can defer taking your pension till you are 70. Since the payment is aimed to provide sustenance to the retirees that are most in need, there is an income threshold, beyond which you have to start paying back your OAS.

For 2021, the threshold is set at $79,845. If your yearly income is above this threshold, you will pay back 15 cents for every dollar you earn above the threshold amount. One of the best ways to get around this clawback is to adjust your taxable income by leveraging your TFSA funds. Both CPP and OAS pensions are taxable, and so are RRIF withdrawals.

If you need to take out more than the mandatory RRIF withdrawals to meet your financial needs, and the excess amount is likely to push you beyond the OAS repayment threshold, consider withdrawing from your TFSA instead.

Grow your TFSA funds

If you are planning to rely heavily on your TFSA funds to manage your taxable income in your retirement years, you have to ensure there are enough funds in your TFSA. One stock you might want to consider to grow your TFSA funds is **Parkland** (TSX:PKI). This independent retail fuel company has been growing at a decent pace for the last 10 years, and its dividend-adjusted 10-year CAGR is at 19%.

If it can keep this pace up, just one year's TFSA contributions ($6,000) in this company can grow to almost $190,000 in two decades. The stock took quite a dip during the March crash (over 58%), but it has made quite a recovery. While it's not at its pre-pandemic valuation yet, the stock did grow its valuation by 100% since the crash. It's also an Aristocrat of seven years and has a yield of 2.9%.

Foolish takeaway

The ideal situation would be that you are able to contribute the maximum amount to both your RRSP and TFSA. But that's not possible for a lot of people. So, if you have to distribute your savings between the two accounts, you might have to prioritize one over the other. In most cases, it would be better to max out your TFSA contributions and save as much as you can in your RRSP.

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Author
adamothman