Retirees: Watch Out for the OAS Clawback in 2021

### Description

Canadian seniors constantly search for ways to boost income on their savings without incurring extra income taxes. In addition, they need to keep an eye on their earnings to avoid the CRA's Old Age Security pension recovery tax, otherwise known as the OAS clawback.



## What is the OAS clawback?

The CRA implements a pension recovery tax on OAS payments when net world income tops a minimum threshold. The number Canadian seniors need to watch in 2021 is $79,845.

Once earnings hit that amount, the CRA reduces the OAS pension due in the following payment year by 15 cents for every dollar of net world income above the threshold. The tax adds up until the OAS clawback recovers the full OAS pension. The maximum threshold for the 2021 income year is $129,075.

So, a retiree who reports income of $99,845 in 2021 will see OAS payments reduced by $3,000 in the July 2022 to June 2023 period.

Retirement earnings of $80,000 per year allow most people to live a comfortable lifestyle. However, you have to consider income taxes and rising living costs. In addition, many retirees these days still have mortgage payments or face rising rent costs.

Inflation is expected to hit 2% by the end of 2021. Some seniors would argue their cost of living is rising at a much faster clip.

It is easy to understand retiree frustration with the OAS clawback. People who followed good retirement planning practices during their working lives feel like they are being penalized for their efforts. For example, a retiree who gets a decent work pension, CPP, OAS, and withdrawals from RRSPs or RRIF payments could quite easily top the $80,000 mark. Rental income and earnings on investments in taxable accounts go into the calculation as well.

## How to avoid the OAS clawback

Winning the lottery and hitting it big at the casino are ways to boost income and not pay extra tax, but these aren't reliable or recommended strategies.

Taking advantage of TFSA contribution room, however, can help retirees increase income on savings without triggering or increasing the OAS clawback. The TFSA contribution limit increased by $6,000 in 2021. That brings the total space to $75,500 per person. A retired couple has as much as $151,000 of investment room to earn tax-free income that isn't used to determine OAS clawback amounts.

The challenge lies in finding decent investments that pay attractive returns without putting the principal at too much risk. In the past, this wasn't an issue because GICs, government bonds, and even savings accounts offered decent interest payments.

Today, a retiree is hard-pressed to find a GIC from a big bank that pays 1%.

## Best stocks for TFSA income



Fortunately, the **TSX Index** is home to a number of top dividend stocks with long track records of rising distributions. Companies such as **Fortis**, **TC Energy**, **Enbridge**, and **Telus** all raised their dividends in 2020 and intend to continue their strong dividend-growth trends for years to come. These companies currently offer yields ranging from 3.9% to 7.7%.

The Canadian banks put dividend hikes on pause in 2020, but investors should see increases resume this year once the government lifts special restrictions. Dividend yields from the Big Five banks are 4.1% to 5.4% today.

Retirees can easily build a top-quality portfolio of dividend stocks paying an average 5% yield right now. That would give a retired couple a total of $7,550 per year in tax-free income on $151,000 in TFSA investments. The money goes right into your pocket, and the CRA does not include the income when determining the OAS clawback.

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