How to Save Your $615/Month OAS From the CRA Clawback

Description

Did you turn 65 this year? Are you planning to claim the Old-Age Security (OAS) pension? Then you should read this as the Canada Revenue Agency (CRA) can claw back all your pension under certain circumstances. However, you can save your OAS from the CRA clawback if you plan your finances systematically, considering your financial situation.

What you should know about the OAS clawback

The OAS is a government-funded pension Service Canada provides to people who have lived in Canada for at least 10 years after age 18. When you turn 65, Service Canada automatically enrolls you for the OAS, asking you to start or delay your pension. Even if it doesn't enroll you automatically, you can apply for it after you turn 65, and start receiving the pension from the month after your 65th birthday.

For 2021, you can get up to $615.37/month in OAS pension if you earned less than $79,845. If your income exceeds this amount, the CRA starts to clawback the pension at 15% of the surplus income. Your pension phases out completely when your income reaches $129,075.

While this is a direct clawback, the CRA also adds your OAS amount to your taxable income. If you are working past age 65, you should consider the tax implication of the OAS.

When is the right time to claim the OAS?

Note that the OAS is a benefit targeted at low and mid-income earners. Hence, the government reduces the benefit if you are a high-income earner. If your 2020 net income is below $18,648, you will also get a Guaranteed Income Supplement (GIS) of up to $919.12/month, which again is taxable. By adding OAS and GIS you can get up to $1,534/month in a government-funded pension.

But if you are a mid to high-income earner who is still working, Service Canada gives you an option to delay your OAS by five years till age 70. It gives you an incentive of 0.6% per month for delaying your

OAS. For instance, if you delay your $615.37 OAS by 30 months, your pension amount will increase by 18% (0.6%*30) to $726.14/month.

You should delay your OAS if your income is more than $79,845 and you are below 70. This is because the CRA will otherwise clawback your pension through recovery tax.

You should claim the OAS when:

- Your income is below $18,648. This is because you won't get the GIS if you don't take OAS, and the former won't increase if you delay the latter.
- You turn 70 as there is no benefit of delaying the OAS anymore.

By considering the above factors, you can prevent the CRA from clawing back your government-funded pension.

Build a TFSA pension pool

Like the OAS, any other type of pension from the Registered Retirement Savings Plan (RRSP) or the Canada Pension Plan (CPP) payout is taxable. But if you make a pension pool in your Tax-Free Savings Account (TFSA), you can make your withdrawals tax-free.

If you have no other choice but to claim the OAS, you can put $200/month from this pension in **Enbridge** (TSX:ENB)(NYSE:ENB). It is among the age-old Dividend Aristocrats enjoying 26 years of paying incremental dividends to its shareholders.

A $200/month investment will give you $2,400 in a year. Given that Enbridge has an average dividend yield of 6%, your $2,400 taxable investment will give $144 in dividend income for a lifetime. Moreover, Enbridge will keep growing its dividend at least for 10 years till oil and natural gas continue to be a major form of energy.

As the energy industry shifts to renewable, so is Enbridge. But I won't comment on how dividends will look like in a world powered by renewable energy. Hence, I am keeping a 10-year horizon. If Enbridge increases its dividend at an annual rate of 6%, your $144 TFSA pension will grow to $258. This dividend income will be tax-free and substitute some of the OAS pension that you gave away in taxes.

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