15% OAS Clawback: 2 Ways to Avoid it

Description

OAS clawback — the penalty for earning more than a certain threshold in your retirement. The threshold for 2021 is $79,845. Every dollar of your net income that's more than this ceiling is subject to a 15% clawback. So, if you earn a nice, even $100,000 as a retiree (and OAS recipient), you might need to pay a little over $3,023 (15% of the income above the threshold) back to the government.

And if your income reaches the maximum threshold, you might need to pay back all the OAS income you got from the government. It might not seem fair, but the primary goal of OAS is to help seniors most in need. So, the government takes back the benefit from individuals who otherwise have assets to cover them for redistribution to those more in need.

But you might not need to pay a single dollar back if you take certain steps to avoid the OAS clawback.

Lean heavily on your TFSA income

The OAS clawback only pertains to the taxable income. If your taxable income is within the threshold specified, you might not need to suffer from the clawback, even if your overall income is way above the threshold. That's possible thanks to the tax-free income from a healthy TFSA.

Let's say you have a decent amount of capital (contributed and grown) in your TFSA, and you invest $50,000 from it in a dividend stock like **Canacol Energy** (TSX:CNE), which is currently offering a juicy 5.1% yield. This will get you about $2,550 in tax-free passive income every year, and that's income that won't push you closer to the threshold for the OAS clawback.

Canacol is enjoying the growth boom the energy sector is going through. It has grown 36% in the last two months alone and might ride the current momentum higher, but the more it grows, the lower its yield would go.

Defer your OAS till you are 70

This can be an important part of an elaborate retirement financial strategy. By deferring your OAS (and ideally, your CCP) till you are 70, you can enhance the amount you will receive from these government-funded (and self-funded) pensions by a significant margin. To bridge the gap between your retirement at 65 and the start of your pension at 70, you can rely heavily on the taxable RRSP income and deplete it before TFSA.

It might even be a good idea to use your RRSP funds for big-ticket items that can reduce your monthly expenses later down the line, like paying off your house.

And if you want to add more growth to your RRSP to offset overdependence on it between the ages of 65 and 70, consider adding a powerful growth stock like **Nuvei** (TSX:NVEI) in your RRSP. The stock grew its market value by almost 200% in the last 12 months.

That's an unsustainable pace, especially considering the strong IPO momentum/new stock attraction is still contributing to the growth perception. Still, even if the stock manages to grow 50% every year, which is not unlikely for a powerful fintech stock like Nuvei, it can double your capital every two years, offsetting the fast-paced depletion.

Foolish takeaway

It's never a good idea to lose dollars in order to save pennies. That's the "adage" you should keep in mind when you are planning to avoid the OAS clawback. If the strategy is forcing you to give up more in the long term than what you might be saving by avoiding OAS clawback, the overall equation is likely to result in a negative for you.

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