



Retirees: Protect OAS and Earn an Extra \$3,775 Per Year Tax-Free!

Description

Canadian seniors are constantly searching for ways to boost their income without being bumped into a higher tax bracket or putting their OAS at risk of a clawback.

TFSA Investing

The Tax-Free Savings Account (TFSA) limit increased by \$6,000 in 2021. This brought the cumulative maximum contribution space for retirees to \$75,500. All income earned inside and removed from the TFSA is tax-free and the CRA does not include the earnings when calculating net world income to determine the potential Old Age Security (OAS) pension recovery tax.

The OAS clawback is 15% on every dollar of income above a minimum threshold. That number to watch in the 2021 income year is \$79,845. A person who receives OAS and has a net world income of \$89,845 in 2021 would see their OAS for the payment period of July 2022 to June 2023 reduced by \$1,500. That's a big hit.

Retirees who are near or above the \$80,000 income level can benefit by earning income on savings inside their TFSA instead of in taxable accounts.

Let's look at two top high-yield dividend stocks that might be interesting picks today.

BCE

BCE ([TSX:BCE](#))([NYSE:BCE](#)) is Canada's largest communications company with a market capitalization of \$57 billion. Size matters in this sector due to the huge costs of building out mobile and wireline infrastructure to keep up with growing demand for broadband across multiple platforms.

BCE recently spent \$2 billion on new spectrum that will be the foundation for the growth of the company's [5G](#) network. The company also continues to invest in fibre optic lines, including its fibre-to-the-premises program. This ensures BCE can deliver the broadband its residential and commercial

clients need while protecting the wide competitive moat.

BCE has the flexibility to increase prices when it needs additional cash. That might irk customers, but it is good news for investors in the stock. BCE generates strong free cash flow to support the dividend and investors should see steady increases in the payout in step with growth in free cash flow.

The stock trades near \$63 at the time of writing compared to \$67 earlier this year. Investors who buy the shares at the current price can pick up a reliable 5.5% dividend yield.

Manulife Financial

Manulife ([TSX:MFC](#))([NYSE:MFC](#)) is a leader in the Canadian insurance and asset management industry. The company also has operations in the United States, Europe, and Asia. The American business focused on asset and wealth management primarily operates under the John Hancock brand.

Manulife took a big hit during the Great Recession due to risks in the U.S. annuities business. Management made several changes since then to ensure the company is better able to ride out a market crash and that proved to be the case last year.

The stock trades near \$25 per share compared to the 2021 high around \$27.50 and offers a 4.5% dividend yield.

The Asia operations offer attractive growth potential as an expanding middle-class drives demand for insurance and wealth management products. The region has a massive population base and Manulife is well established in the key markets.

Interest rates are expected to increase in 2022 or 2023 and could steadily rise in the following years. Higher interest rates tend to be positive for insurance companies as they drive better returns on cash that is held to cover potential claims.

The bottom line on tax-free passive income

Canadian retirees can use the TFSA to hold top dividend stocks that provide a steady stream of tax free income. An equal investment in BCE and Manulife would generate an average yield of 5% and it would be quite easy to put together a diversified portfolio that provides this level of dividend return.

In a \$75,500 TFSA this would generate \$3,775 per year in tax-free income that wouldn't put your OAS at risk of a clawback.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BCE (BCE Inc.)

4. TSX:MFC (Manulife Financial Corporation)

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aswalker

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