Retirees: How to Earn Tax-Free Income to Supplement Your OAS and CPP Payouts

Description

The Canadian government has a couple of pension plans for retirees. These include the CPP (Canada Pension Plan) and the Old Age Security (OAS), which provides retirees with a monthly payout.

The Canada Pension Plan is a monthly, taxable payment and aims to replace a portion of your income in retirement. Further, to qualify for the CPP, you should be above the age of 60 with a single valid contribution made towards the plan.

The CPP payout in retirement depends on a number of factors that include the age you choose to start the payment, average earnings during employment as well as contributions towards the pension plan. In 2021, the maximum monthly payout for a recipient starting pension at the age of 65 is $1,203.75, while the average monthly amount is $619.68.

Comparatively, the Old Age Security is the largest pension program in Canada and is funded from the general tax revenue earned by the country. It's a monthly payment available to residents over the age of 65 and primarily depends on the length of your stay in Canada after the age of 18. The maximum monthly OAS payout stands at $642.25.

So, if we combine the CPP and OAS, the maximum monthly payment stands at $1,846, indicating a maximum annual payment of $22,152, which is not sufficient to lead a comfortable life during retirement in large cities such as Toronto and Vancouver. The average CPP and OAS amounts are significantly lower, and it makes sense to ensure you have additional income sources to supplement retirement benefits.

Retirees can supplement OAS and CPP with blue-chip dividend stocks

It's always advisable to bank on multiple income streams in your retirement. One way is to build a portfolio of quality dividend stocks that will help you derive a steady stream of passive income. There are a few companies such as **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) that offer investors a monthly dividend payout. And if the stock is held in your TFSA, retirees can earn income without paying any taxes to the Canada Revenue Agency.

A midstream company with an enterprise value of $32.4 billion, Pembina Pipeline offers investors a forward yield of 6.42%. Pembina began dividend payouts back in 1997 and has since disbursed $10.5 billion to shareholders until now.

The company's cash flows are backed by long-term contracts. Further, its diversified portfolio of cash-generating energy infrastructure assets ensures cash flows are stable across economic cycles. Pembina managed to maintain dividend payments at the peak of COVID-19 when oil prices fell off a cliff, as it remains relatively immune to fluctuations in commodity prices.

Now, as consumer demand has increased in the past year, analysts expect Pembina Pipeline to increase earnings per share to $2.55 in 2021 compared to a loss of $0.86 per share in 2020. The Canadian energy giant remains on track to end 2021 with adjusted EBITDA between $3.3 billion and $3.4 billion in 2021.

The Foolish takeaway

The total TFSA contribution limit stands at $81,500 for 2022. If you allocate the entire amount towards purchasing Pembina shares, you can generate $5,230 in annual dividends. But Pembina is just an example of a quality dividend stock. You need to identify similar companies that enjoy a wide economic moat, are recession-proof and offer an attractive dividend yield to investors.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. araghunath

2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/08/24
Date Created
2022/01/13
Author
araghunath