Retirees: How to Earn Tax-Free Income in 2023 to Supplement Your OAS and CPP Payouts

**Description**

The government of Canada has a couple of pension plans for retirees that help residents lead a comfortable life during retirement. These pension plans include the Canada Pension Plan (CPP) and Old Age Security (OAS ). Both plans provide retirees with a monthly payout.



## How much do the CPP and OAS pension plans pay?

The CPP aims to replace a portion of your income in retirement, and the amount you are eligible to receive each month depends on your average earnings during employment, the contributions towards the pension plan, as well as the age you choose to start the payment.

In 2022, the maximum monthly payout for those starting pensions at the age of 65 is $1,253.59, and the average monthly CPP payout is much lower at $727.61.

OAS is Canada's largest pension program. Funded by the tax revenue earned in Canada, the OAS is also a monthly payment available to those over the age of 65. The maximum OAS payout for Canadians between the ages of 64 and 74 is $685.5, while those over the age of 75 will receive up to $754.50.

If we combine the maximum CPP and OAS payments, you will receive up to $1,939 each month, or around $23,300 annually, which is not quite enough to lead a comfortable retired life. It makes little sense to just depend on your CPP and OAS during retirement. Instead, you need to create multiple passive-income streams to support your pension payments.

One cost-effective way to build a predictable stream of passive income is by investing in quality dividend-paying stocks such as **Brookfield Infrastructure** (TSX:BIP.UN), **Canadian Natural Resources** (TSX:CNQ), and **Royal Bank of Canada** (TSX:RY). Further, if these investments are held in the TFSA, or Tax-Free Savings Account, any returns in the form of dividends and capital gains are exempt from Canada Revenue Agency taxes.

## Use the TFSA to create a stream of tax-free income

Each of the three stocks has outpaced the broader markets in the last 10 years. Since November 2012, shares of Brookfield Infrastructure, Canadian Natural Resources, and Royal Bank of Canada have returned 521%, 343%, and 254%, respectively, after adjusting for dividends.

Despite these outsized gains, the three stocks offer investors an average forward dividend yield of 4%. Given the maximum cumulative TFSA contribution room for 2023 will increase to $88,000, this amount equally distributed in the three TSX stocks will bring in $3,520 in annual dividends.

Additionally, these companies have consistently increased payouts at a consistent pace in the last 10 years. If dividends increase at an annual rate of 7% in the upcoming decade, your annual payout will almost double to $7,000 in the next 10 years, increasing your effective yield to 8%.



Dividend payments are not guaranteed and can be revoked or suspended at any time, especially if the economy enters a recession. But BIP, RY, and CNQ are three stocks that have maintained payouts across market cycles due to strong cash flows and a healthy balance sheet.

Canadians should identify similar companies with tasty dividend yields and a history of expanding cash flows to create a portfolio of quality dividend stocks trading on the TSX.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:RY (Royal Bank of Canada)

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