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

## Description

Canada has a fairly robust retirement system comprised of the Canada Pension Plan (CPP) and Old Age Security (OAS). Combined, these two programs are intended to provide retirees with a baseline level of financial security throughout their golden years.



That being said, having a rock-solid and ample investment portfolio for retirement can significantly improve your quality of life and freedom. A great way to achieve this is by consistently maxing out a tax-free savings account, or TFSA, early on.

For retirees, dividends, capital gains, and withdrawals in a TFSA are completely tax-free, allowing you to keep more money in your pocket and potentially even avoid the dreaded OAS clawback. Today, I'll show you how using exchange-traded funds, ETFs, in a TFSA can help create tax-free monthly income.

## Monthly income sources

If your goal is to supplement your CPP and OAS payouts without selling shares, there are a few options for assets you can invest in. Each of the following assets have provided higher-than-average income levels compared to investing in regular stocks. They include:

- Canadian dividend stocks.
- Canadian real estate investment trusts (REITs)
- Corporate bonds
- Preferred shares

Each of these assets possesses unique sources of return, but also risk. Therefore, a good idea is to diversify among them. This way, your income stream is not reliant on a single asset performing well. When one does poorly, the others have a chance to pick up the slack.

# My investment of choice

A great way to gain exposure to most of these assets in a single ticker is via an exchange-traded fund (ETF) like the **iShares Canadian Financial Monthly Income ETF** (TSX:FIE).

This ETF holds a portfolio of Canadian bank/insurance company dividend stocks, preferred shares, corporate bonds, and income trusts. Currently, the ETF has a 12-month trailing yield of 7.27%, which is the yield an investor holding the FIE over the last year would have received based on its current share price.

Another bonus of FIE compared to regular dividend stocks is its monthly payout frequency. Most dividend stocks pay quarterly, which isn't ideal for retirees seeking consistent income. Because FIE pays monthly, you get more regular cash flows to plan around.

A great use for FIE is as the core of an income-focused portfolio. From there, diversifying further is a good idea given that the ETF only holds assets from the Canadian financial sector. Great ideas include picking some blue-chip Canadian utility, telecom, or energy sector stocks with above-average dividends (and the Fool has some great recommendations for those down below).



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