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

Description

Canada's publicly funded retirement system includes both the Canada Pension Plan (CPP) and Old Age Security (OAS). Together, the two programs are meant to provide a basic level of financial security for retirees, but they won't guarantee a luxurious quality of life.

Therefore, having a strong and substantial investment portfolio for retirement can greatly enhance your quality of life and freedom. One effective way to achieve this is by consistently contributing the maximum amount to a tax-free savings account (TFSA) from an early stage and growing it.

Any dividends, capital gains, or withdrawals from a TFSA are tax-free, enabling you to retain more money and potentially avoid the dreaded OAS clawback. In this article, I will demonstrate how using exchange-traded funds (ETFs) in a TFSA can help generate tax-free monthly income.

Income-generating assets

If your objective is to supplement your CPP and OAS payments via withdrawals from a TFSA, there are several assets you can invest in that offer higher-than-average income levels compared to investing in regular stocks. These include:

- Canadian dividend stocks
- Corporate bonds
- Preferred stock
- Real estate investment trusts (REITs)

Each of these assets has its own unique risk and return characteristics. Thus, diversifying among them to spread out your sources of risk is a wise choice. When one asset zigs, the other can zag, thus reducing the chances of a bad loss wiping out your portfolio.

Possible ETFs to use

A great way to instantly access a portfolio of the above-noted assets is via ETFs. ETFs trade on exchanges like stocks, but can offer greater diversification at a low cost. Some good ETF picks for income-generating assets include:

- Canadian dividend stocks: **Vanguard FTSE Canadian High Dividend Yield Index ETF** (TSX:VDY)
- Corporate bonds: **BMO Corporate Bond Index ETF** (TSX:ZCB)
- Preferred stock: **iShares S&P/TSX Canadian Preferred Share Index ETF** (TSX:CPD)
- REIT: **Vanguard FTSE Canadian Capped REIT Index ETF** (TSX:VRE)

The Foolish takeaway

A portfolio split evenly between these four ETFs would give investors a balanced exposure to 25% Canadian dividend stocks, 25% Canadian preferred shares, 25% REITs, and 25% corporate bonds.

This allocation is an example and not intended to be a one-size-fits-all recommendation. Be sure to tailor your portfolio p my name is Jason White this is Ted Waterman was over here next to us and i'm on the detective sits up here on track where were you last time Maybe not all night icks to your risk tolerance and investment objectives.

Once you feel comfortable with your ETF portfolio, a great way to take it to the next level is with a few high-conviction Canadian stock picks (and the Fool has some recommendations for those down below!)

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1. TSX:CPD (iShares S&P/TSX Canadian Preferred Share Index ETF)
2. TSX:VDY (Vanguard FTSE Canadian High Dividend Yield Index ETF)
3. TSX:VRE (Vanguard FTSE Canadian Capped REIT Index ETF)
4. TSX:ZCB (BMOorate Bond Index ETF)

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