How a Couple Can Collect the Maximum OAS of $19,600

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Ted Rechtshaffen: These five strategies can maximize your OAS and could easily add $100,000+ to your long term assets

Old Age Security (OAS) is a funny part of Canadian retirement planning.

Many Canadians assume they won't receive it, or even if they do, they believe it won't last many more years.

The truth of the matter is that for a couple, it can generate as little as $0 or as much as $19,600 a year if you receive full OAS and delay receiving it until you both turn 70.

The basics on the OAS are as follows. You will qualify for a full OAS:

1. If you have lived in Canada for at least 40 years after the age of 18. You will receive partial OAS if you have lived in Canada at least 10 years after age 18.

2. If your taxable income (your net income on line 236 of your tax return) is under $77,580 in 2019. For every dollar above this amount, you will lose 15 cents of OAS up to roughly $125,000, at which point your OAS will be fully clawed back.

3. If you delay receiving your OAS from 65 to age 70, you will receive 36 per cent more or a maximum of $9,815 a year.

There are some people with so much wealth from pensions, investment income or minimum RRIF withdrawals that they are far past the $125,000 a year in income and will simply not receive OAS. Having said that, there might still be some strategies to help.

On the other hand, there are many Canadians whose income in retirement will not be close to $77,000 and who will always receive full OAS benefits.

If we start with the premise that you want to receive the most OAS possible, then you will be deferring OAS to age 70. This may or may not be the right decision for you. In general, it is the right decision if you are in good health and believe that you (and likely both of you if you are a couple) will live past age 85 and do not have immediate cash-flow requirements for OAS funds.

The risk is that if one person in a couple takes deferred OAS and the other passes away younger, the survivor is no longer able to split income and depending on their assets, that survivor may now have OAS clawed back, even on the larger deferred amount.

(As a sidenote, the CPP is a better deal as far as deferral past age 65 is concerned. If you defer CPP to age 70, it grows 42 per cent as compared to the 36 per cent growth of a deferred OAS.)

Getting back to the "How do I get the most" question, it is certainly easier if you are a couple as opposed to being single. The five best ways to maximize OAS would be:

First, split income as much as possible in order to ideally keep both individuals' net incomes under $77,000. If you are able to fully split income, this means your household income could be $154,000, and you would still qualify for full OAS.

Second, use all tax deductions possible to lower taxable income. This includes making RRSP contributions if you have room. One trick is that even if you are over 71, you can possibly make a contribution to the younger spouse's spousal RSP account if they are under that age. Where possible, be sure to deduct interest income on loans and investment expenses (when investing with an investment counsellor or in a fee-based taxable account). These deductions will not only lower your taxes, but if you are in the OAS clawback zone, they will add 15 cents of OAS for every dollar deducted.

Third, when drawing investment funds to cover your cashflow, consider drawing TFSA or non-registered assets which will not incur any taxable income, rather than drawing extra funds from your RSP, RRIF or corporate account.

Fourth, lower your taxable investment income. If you have taxable investments (non-registered accounts), be sure and focus on tax efficiency in this account. This would probably mean a focus on ETFs and stocks that do not have any or small dividend distributions, meaning a focus on growth stocks. Some ETFs now are structured not to distribute income for this purpose. There are still some REITs that

do generate decent yields, but the yields are structured mostly as return of capital. One last thought is to either gift some of these assets to adult children if you won't need them in your lifetime, or invest them in an insurance policy that will likely have a much higher after-tax return for your estate. If you don't have the taxable assets in your hands, you will have a lower income.

Fifth, shift income earlier. If you are under 65 or if you are planning on deferring OAS, this would apply up to age 70. You may want to draw funds from your RRSP in the years before that income will qualify toward an OAS clawback. For example, rather than draw CPP and OAS at age 65, you could defer it five years, and in that time draw from your RRSP instead. This will allow you to have a lower RRIF minimum in later years, and possibly help to maintain full OAS at that time. There may also be capital gains on a second property or other unrealized investment gains that you might want to claim in a year prior to it affecting OAS clawbacks.

It is important to keep in mind that these strategies will all be beneficial to maximizing OAS, but still may not be the right strategy overall for you. What is interesting is that all of these strategies to lower taxable income can still apply to you regardless of the OAS strategy.

As you deal with retirement income planning in your late 50s and 60s, these tax and benefit strategies and ideas could easily add $100,000+ to your long term assets. Now is the time to think about them and to take the appropriate action for your personal situation.

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