CHARTING RETIREMENT

Retirees will get more after-tax income from dividend stocks than GICs

FREDERICK VETTESE
SPECIAL TO THE GLOBE AND MAIL
Published Yesterday

If you're a retiree with non-tax-sheltered savings, you will want to know which investment vehicle will provide the most after-tax income.

A previous chart showed that a typical investor would have been much better off buying dividend stocks from eligible Canadian corporations instead of bonds or GICs over the past 25 years. But as a retiree, you will be much more interested in the next 12 months.

Consider Craig, who is 75. He receives the full OAS pension, including the 10-per-cent bump at 75, as well as $14,000 in CPP pension. Craig is also drawing $20,000 of income from a RRIF. Finally, he has $1-million in savings that are not tax-sheltered. It could have come from an inheritance or the sale of a business.

Let's say that the $1-million could earn pre-tax investment income at a 4-per-cent rate from either one-year GICs or from dividend stocks. In either case, Craig's total pre-tax income would be $83,605. But which investment provides more after-tax income? As the chart shows, it depends on where Craig calls home.

Craig would receive much more after-tax income from dividend stocks rather than GICs. The biggest bump – $9,900 – would come in New Brunswick and the smallest – $5,450 – from Newfoundland.

These numbers include the effect of a modest OAS clawback which reduces the after-tax income under the dividend option by $803. That is because dividend income is grossed up for tax purposes and brings the total income above the clawback threshold.

So what is an investor to do? High-yielding dividend stocks do contain some risk as telecom stocks have shown over the past year. On the other hand, the sizable boost in after-tax income from dividend stocks is hard to ignore.

Frederick Vettese is former chief actuary of Morneau Shepell and author of the PERC retirement calculator (perc-pro.ca)