Are Volatile Prices Crushing Canadian Retirees?

Description

It’s tough being a Canadian pensioner these days. In fact, a recent report suggests senior bankruptcies account for nearly 30% of all filings.

What’s happening?

Every month retirees get a fixed amount of income coming in from their pension plans, but somehow that money keeps running out a lot faster than it used to. Part of the issue is connected to growing debt, but there is another side to the story—fluctuating prices.

The government says inflation rates are trending at historic lows. It certainly doesn’t feel that way.

Statistics don’t lie, of course, but the day-to-day costs of getting by just seem to be rising at a much faster rate than increases to Old Age Security or Canada Pension Plan payments.

How are increases calculated?

The rate of inflation is determined by measuring the cost of a fixed “basket” of consumer purchases. These include food, shelter, transportation, furniture, clothing, and recreation.

The end result is called the Consumer Price Index and the year-to-year changes in this value are used to determine adjustments to pension payments based on the implied cost-of-living increases.

The system isn’t perfect. It is simply designed to provide a snapshot of the overall cost-of-living picture, but the government’s basket is not the same as *your* basket, and the day-to-day volatility in the prices a person pays for basic goods can be extreme.

For example, a retired friend of mine (let’s call him Cranky), buys a lot of bread, cheese, coffee, olive oil, and peanut butter. These are pretty basic goods that many Canadian retirees put in their shopping carts, but the variation in the cost of these products is a killer. In fact, in any given week, the prices can vary by more than 50%. Sometimes Cranky’s favourite loaf of bread is $2.00. Sometimes it’s $3.25.

And don’t get him started on gasoline prices. The other day Cranky said he filled up his car for $0.93 cents per litre. The next morning, the price was $1.13. That’s a 21.5% price hike overnight!

Clothing costs are no better. Cranky wears a lot of T-shirts. At the regular price, these set him back about $10-15 each. The world’s largest retailer had a sale last week and Cranky’s $15 bought him FIVE shirts.

So, what are retirees to do to ensure they can afford to pay for their daily bread?

The low-return dilemma

Investing in bonds and GICs used to be a good way to get some extra income to cover the monthly funding gaps. Unfortunately, those days are long gone, and there doesn’t seem to be much relief on the horizon.

As a result pensioners are turning to dividend stocks for yield. These investments certainly come with higher risks than GICs, but there really aren’t many options out there right now.

Some dividend stocks are more reliable than others, and having a diversified basket of good ones can provide retirees with a reasonable return without taking on too much risk.

For example, stocks like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Telus Corporation** (TSX:T)(NYSE:TU) have a long history of capital appreciation and dividend growth. These companies have little competition and their businesses have been built so well that they are pretty much guaranteed to continue generating solid free cash flow for decades.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. Editor's Choice

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1. NYSE:TD (The Toronto-Dominion Bank)
2. NYSE:TU (TELUS)
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