



Retirees: Here's How Much You'd Need to Live Off RRSP or TFSA Income

Description

What's the magic number for a secure retirement?

According to polls, it's \$750,000.

That's what most Canadians believe they'll need to retire comfortably. And the financial experts seem to agree, with advisors quoting a range of [anywhere from \\$650,000 to \\$750,000](#) for people without employer pensions.

If you leave \$750,000 in cash, you can spend about \$37,500 a year for 20 years. While that's not nothing, the value of \$37,500 can easily be eroded by inflation. Additionally, if you live longer than 20 years post-retirement, the amount you can spend annually is reduced.

For this reason, it's best for retirees to put their savings in dividend stocks — and ideally hold them in tax-sheltered accounts like RRSPs or TFSAs. Although RRSPs require a long-term commitment, you can start building TFSA income at any time and take advantage of cumulative contribution room. The TFSA limit is fairly low at \$6,000 in 2019, but people who haven't opened one since 2009 can put \$63,500 in right away. Between that and your RRSP money, you can generate some serious tax-free/tax-deferred income.

The following examples will help illustrate exactly how much.

How much you'd need to supplement CPP payments

In 2019, the absolute maximum monthly CPP payment is \$1,154. You can earn that much in a \$250,000 RRSP with a position in **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) stock. In fact, the payments on \$250,000 worth of ENB are slightly more than the max monthly CPP payout, coming in at [\\$1,279 a month](#). If you're aiming to get to that level of income from dividends, make sure you're maxing out both your TFSA *and* your RRSP, since it will be tough to get to that level in either account alone in a short time frame.

How much you'd need to live off dividends alone

It's one thing to supplement your CPP payments with dividend stocks, but quite another to have enough to live off. That \$1,279 a month is below the poverty line, and while you may be able to live off that and CPP combined, inflation could take a bite out of your plans. So, it's wise to save diligently and build a position that can pay you a livable income for life.

How much would you need for that?

Here's where the magic \$750,000 number comes into play again.

With a position of that size in Enbridge stock, you'd generate about \$46,000 a year in dividends — easily enough for a single person to live off in a smaller city. Not only that, but with Enbridge's dividends increasing by about 13% a year on average, your income may beat inflation. Throw a \$1,154 CPP contribution on top of that, and you've easily got enough to live off of if you keep expenses low.

Foolish takeaway

When it comes to retirement, diligent saving is the name of the game. As we've seen in this article, you don't need a million dollars to generate a livable amount of tax-free/tax-deferred retirement income. With as little as \$250,000, you can build yourself a "second CPP," and with \$750,000, you can generate enough income to live on. The key is to start on your saving well before you actually have to retire. Not only do you need several hundred thousand dollars to live off dividend income, but you also need to get the money into your TFSA or RRSP without exceeding contribution limits.

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