Retirees: Build a 2nd Pension Using CPP Stocks

Description

The Canada Pension Plan (CPP) was designed for Canadians to have a base for retirement income. Ideally, the CPP should replace 25% of your active income during the sunset years. Hence, it's mandatory that if you're 18 years old or older, you must contribute to the CPP.

But retired individuals and would-be retirees who are CPP contributors are not prohibited from building a second pension. If you're wondering how that is possible, you can invest in CPP stocks.

What are CPP stocks?

The Canada Pension Plan Investment Board, or CPPIB, is the professional investment management organization that invests the assets of CPP (or your contributions) to maximize returns without undue risk or loss.

The CPPIB invests in publicly traded companies in Canada. For this reason, CPPIB's equity holdings are what you might call as CPP stocks. You can follow the lead of CPPIB and invest in CPP stocks to create your second pension.

Energy stock

The CPPIB invests in **TORC** (TSX:TOG), a Canadian oil & gas company. As of the quarter ended March 31, 2019, CPPIB has about 61.3 million shares of the energy stock. It's the board's second-largest equity holdings.

TORC could be your core holding too in your second pension plan. This $779.33 million company is nearing 10 years of profitable operations. I would assume that CPPIB chose to invest in TORC because it offers both capital appreciation and relatively high dividends.

For less than $5 per share at writing, you'll receive an annual dividend of 9.06%. At present, analysts are recommending a buy rating. The forecast upside is about 110%.

The CPPIB did not err in selecting TORC. From deep losses three years ago, the company was able to complete a significant turnaround in 2018. Now that TORC is back in positive territory, the company's annual growth estimate in the next five years is 41%.

Bank Stock

Predictably, CPPIB's equity holdings include bank stocks. The Canadian banking system is the best in the world, and Canadian banks such as **Bank of Montreal** (TSX:BMO)(NYSE:BMO) or BMO are among safest investments.

Based on the same public disclosure, CPPIB has about $264 million worth of BMO shares. In the case of BMO, the CPPIB is looking at the total return rather than the dividend yield alone. Historically, the bank stock's total return on a $10,000 investment is 654.82%, including reinvestment of dividends.

If you have BMO in your portfolio, your average annual total return would be 10.63% in the next 20 years. With the stock's current yield of 4.5%, your second pension could double in value in 16 years. The bank also owns the distinction of being the first dividend payer in Canada.

The reason why BMO's growth is accelerating is because of the bank's excellent business mix. No wonder the CPPIB is riding on BMO's strong momentum.

Invest like the CPPIB

CPPIB maintain a long-term view. Their goal is to achieve sustainable returns over the long-term for the benefit of Canadians. By investing in TORC and BMO, you can enjoy the right balance of risk and gains while adding significant value to your second pension plan.

If you have available capital, it's a great idea to have a second pension to shore up your primary pension.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

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1. NYSE:BMO (Bank of Montreal)
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