Worried Your CPP Pension Won’t Pay Enough? Do This

Description

Are you nearing retirement and worried that CPP and OAS payments won’t cover your expenses in your old age?

You’re not alone.

According to a 2018 *BNN Bloomberg* article, 32% of Canadians have nothing saved for retirement and are relying entirely on pensions to get them through their golden years.

If you have a generous employer-sponsored pension, that just might work. If you’re relying solely on CPP and OAS, however, it likely won’t. According to Canada.ca, the average monthly CPP payment is just $679 a month. By contrast, the average retired Canadian has $2,400 in expenses each month. When OAS kicks in at age 65, you get a little boost, but it maxes out at a very low level.

Put simply, if you’re nearing retirement without an employer-sponsored pension, you’re going to need to maximize your savings. If you still have a few years to go before the big day, the following is one way to do that.

Open a TFSA and buy index ETFs

When most Canadians think about retirement saving, their RRSP is the first thing that comes to mind. Over the very long term, and with an ambitious savings goal, RRSPs are indeed ideal.

However, if you’re trying to get a last-minute savings boost, a TFSA is actually better. The reason is that with a TFSA, there are no mandatory withdrawals, and when you do withdraw, the funds aren’t taxed.

This comes with a number of benefits. First, if you opt to take a part-time job in retirement, you won'tbe hit with a big tax bill like you would if you hit the mandatory RRSP withdrawal age (71) while still working. Second, you can withdraw TFSA funds in large lump sums without a penalty, whereas RRSPs charge a withholding tax that increases with the size of the withdrawal.

Once you've got your TFSA open, you need to decide what investments you're going to hold in it. Normally, that takes extensive research and expertise, but there's one investment you can make that gives you a shortcut.

A solid and very safe pick

If you're looking to boost your retirement savings in a TFSA, the safest bet you can make is to invest in dividend-paying index ETFs. These investments have two features that make them ideal for maximizing retirement savings:

1. The "index" part guarantees diversification and market-average returns, so you don't need to worry about surprise losses in individual stocks.
2. The "dividend" part provides a steady income flow, even when the stock market is going down.

One excellent ETF for Canadian retirement investors is **iShares S&P/TSX 60 Index ETF** (TSX:XIU). This index ETF holds a highly diversified basket of stocks based on the TSX 60 — the 60 largest stocks in Canada by market cap.

XIU is not the *most* diversified nor the highest-yielding ETF in Canada, but it has a great combination of both attributes. With 60 large-cap stocks, it has enough diversification to make up the entire equity component of your portfolio. With a 2.7% yield, it generates enough income to gradually boost your cash savings even in bear markets. Finally, it has delivered respectable capital gains over the years, while many high-yield funds haven't.

If you want to boost your TFSA retirement savings with a diversified ETF of Canadian stocks, you can do much worse than XIU.

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