Over 50? 3 Steps to Triple Your CPP Payments at 70!

Description

Canada's Pension Plan (CPP) is one of the best retirement systems in the world. Canada's pension system was ranked among the top 10 in the recently published Melbourne Mercer Global Pensions Index, which takes financial adequacy and risk management into account.

However, what makes the public plan robust and sustainable may also make it inadequate for you. At the moment, the maximum monthly payment a retiree can receive is $1,155. That could be plenty of money for a single person living in some parts of Canada, but is likely to fall short if you live in Toronto, for example.

This monthly amount is also just enough to cover basic living expenses, so you can't really indulge in those retirement vacations you dreamed of all your working life. With that in mind, it helps to save some money separately and boost your passive income later in life.

If you've just turned 50 and have another 20 years to retirement, here's a simple three-step process to triple your monthly passive income when you turn 70.

Maximize TFSA contributions

The Tax-Free Savings Account (TFSA) is a vital tool for any self-funded retirement plan. Utilizing this tool appropriately allows you to skip taxes on both capital gains and dividends earned, which could make a tremendous difference to your passive earnings later in life.

However, most savers fail to take full advantage of this critical tool. Average contributions to the TFSA are far below the maximum every year. The maximum contribution limit for 2020 is $6,000. If you simply contribute that amount for 20 years, your nest egg could be worth $240,000.

The next step is to use the power of compounding to boost your nest egg even further.

Invest in growth stocks

Personally, I prefer investing in growth stocks rather than income stocks in my retirement account for a simple reason: growth is usually higher than income.

The highest dividend yield stock at the moment is a risky oil and gas giant known as **Vermilion Energy** . The stock offers a 14.5% dividend yield at current market price. However, growth stocks like **Shopify** and **Constellation Software** grow at much higher rates. Shopify has expanded sales by 45% this quarter, while Constellation's stock is up 287% over the past five years.

If you can find and invest in relatively safe stocks that are growing at an average rate of 10% a year, your nest egg could reach $345,000 within 20 years.

Switch to dividend stocks

The final step of the process is to switch from high-growth to high-dividend-yield stocks when you reach retirement.

Once you're 70 years old and receiving CPP payments, you can supplement your income by deploying your nest egg to sturdy real estate investment trusts and high-dividend stocks. Stocks like **Alaris Royalty** and **Slate Retail REIT** offer dividend yields approaching 8%.

At that rate, you can generate $27,600 in passive income on your $345,000 nest egg, effectively tripling your passive income from the CPP from $1,155 to $3,455 a month.

Bottom line

To boost passive income in retirement, you must maximize your TFSA contributions every year, invest them in growth stocks, and switch the nest egg to high-yield dividend stocks when you retire.

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