Worried You Won’t Survive on a CPP Pension? Do This!

Description

Did you know that the average retired Canadian’s monthly CPP benefit is only $679.16?

It might be a hard pill to swallow, but it’s true.

Reported directly on the Government of Canada’s website, the statistic shows just how little the average Canadian retiree actually receives from CPP.

Granted, everybody’s situation is different. If you work for your entire adult life and don’t retire early, you could receive up to $1,154. However, even that isn’t enough to cover most peoples’ expenses, making it a “best-case scenario” you don’t want to bet on.

The good news is, if you still have a ways to go before retirement, you have options. By investing wisely, you can build a stockpile of assets that pay you generous cash benefits through your retirement. Not only that, but if you hold them in the right accounts, you can even avoid or defer the payment of taxes on them. Here’s how.

Hold dividend-growth stocks in TFSAs and RRSPs

If you’re a Canadian nearing retirement age, you probably know about or even have RRSPs.

As the standard retirement savings vehicle for Canadians, they give you three key benefits:

1. A tax deduction when you contribute.
2. Tax deferred growth.
3. A lower tax rate on the eventual withdrawal if you wait until retirement to make it.

You may not know about the *other* tax-saving account you have at your disposal: the TFSA. It's an account that lets you deposit a small amount of money each year, which can be invested and withdrawn tax free. TFSAs don't offer the tax deduction that RRSPs do, but they have the advantage of allowing funds to be withdrawn tax-free.

By putting your retirement savings in RRSPs and TFSAs, you can gradually build a stockpile of income-producing investments that serve as a "second pension."

The best stocks for these accounts are dividend-growth stocks (dividend stocks that raise their payouts over time). Such stocks are ideal for retirement saving because they produce income that grows over time, which is typically the top investing priority for retirees. All dividend stocks pay a certain amount of income; dividend-growth stocks offer the promise of watching that income grow.

One solid dividend-growth stock to consider

One great dividend-growth stock currently trading on the TSX is **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN). It's a Canadian utility company that mainly supplies natural gas, electricity, and water in the United States.

AQN shares pay a generous dividend that yields 4% at current prices. That's already enough to generate $10,000 a year with $250,000 invested. But that's not the end of the story. Over the last five years, AQN shares have had their dividend increase by 14.5% per year on average. Should that pattern continue, the yield on cost will go much higher than 4%.

Of course, what happened in the past doesn't necessarily predict what will happen in the future. Any dividend stock could have its dividend cut at any moment. But AQN's most recent quarter saw an 18% increase in adjusted EBITDA — a nice earnings jump that could power more dividend increases in the future. If this earnings trend persists, then investors who buy and hold this stock in their RRSPs and TFSAs will end up sitting pretty.

If you don't want to bet the barn on one dividend stock, you could always invest in an ETF like **iShares S&P/TSX 60 Index ETF**, a solid income producer in its own right that could reward you handsomely over the long run. With a forward yield of around 3%, XIU won't produce quite the gushing river of income you'll get with Algonquin. However, thanks to its built-in diversification, it's a far safer bet, providing the preservation of capital that becomes so very important when you retire.

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