Worried Your CPP Pension Won't Pay Enough? Buy These 3 Stress-Free Investments

Description

The Canada Pension Plan (CPP) is the main source of income that all Canadian retirees have access to. If you worked for most of your adult life, you'll get a monthly benefit regardless of whether you have an RRSP or an employer-sponsored pension. But with the average monthly payout averaging just $679 a month, it's hardly enough to live on. In fact, in most major Canadian cities, it wouldn't even cover rent for a one-bedroom apartment.

Many Canadian retirees worry that CPP and OAS won't cover their expenses in old age. And in most cases, they're right. However, if you still have a few years to go before retirement (ideally, a decade or more), you can build up a portfolio of income-paying investments that can supplement your CPP and OAS payments. The following are three solid investments for retirees considering such a strategy.

Vanguard S&P 500 Index Fund

Vanguard S&P 500 Index Fund (TSX:VFV) is one of the most popular index funds in the world. Seeking to replicate the returns of the S&P 500 Index (the largest 500 publicly trade U.S. companies by market cap), it's an ultra-diversified, relatively low-risk, surprisingly high-return fund.

Over the years, U.S. markets like the NYSE and NASDAQ have handily outperformed the TSX. As a result, the returns you'd have gotten from holding VFV would have outperformed most Canadian stocks. This fact will likely persist for the foreseeable future. The U.S. is home to thousands of publicly traded companies, including all of the ultra-high growth FAANG powerhouses. By buying VFV, you get a diversified basket of these stocks, reducing the risk you'd take on by trying to pick them individually.

iShares S&P/TSX Composite Index Fund

iShares S&P/TSX Composite Index Fund (TSX:XIC) is an index ETF that seeks to replicate the returns of the S&P/TSX Composite Index. Although the TSX has not delivered the kind of gains that the S&P 500 has, it has a higher dividend yield. If you buy XIC today, you'll get about a 3% yield on it, and the yield on cost could grow over time if the constituent stocks raise their dividends.

One advantage of XIC compared to other funds is its ultra-low MER. At 0.06%, you won't even notice the fees. This is a good thing because many funds have piles of hidden fees that can really eat away at your returns over time. However, there can be situations where it's acceptable to buy a slightly higher fee fund in exchange for better performance, as you're about to see.

iShares S&P/TSX 60 Index Fund

iShares S&P/TSX 60 Index Fund (TSX:XIU) is another **Blackrock** fund that tracks the TSX. This one bases its holdings on the TSX 60 rather than the TSX Composite and is therefore less diversified and more concentrated on large caps.

XIU has a much higher MER than XIC at 0.18%. However, for my money, it's worth it. Not only does XIU have a higher trailing yield than XIC, it also has a slight performance advantage over time. The TSX has many small-cap energy stocks that have underperformed over the past five years, and since the TSX 60 doesn't include them, it has done better than the broader index. If energy prices recover and Alberta's production woes cease, then this may change.

However, based on trailing yield and historical performance, XIU looks slightly better than XIC, even accounting for the higher MER.

CATEGORY

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TICKERS GLOBAL

1. TSX:VFV (Vanguard S&P 500 Index ETF)
2. TSX:XIC (iShares Core S&P/TSX Capped Composite Index ETF)
3. TSX:XIU (iShares S&P/TSX 60 Index ETF)

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Date
2025/07/19
Date Created
2019/12/23

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