Can You Retire With No Savings and Only Your OAS and CPP Pension?

Description

The cost of living isn't cheap. Particularly if you live in expensive cities like Vancouver and Toronto, saving for retirement may be the last thing on your mind.

Is it possible to retire with no savings and depend only on the Old Age Security (OAS) and the Canadian Pension Plan (CPP)?

How much OAS and CPP pension payments will you receive?

If you retire at age 65 in 2020, the most you can receive from your CPP pension is $1,175.83 per month. Keep in mind, though, that the average monthly amount received in October 2019 was only $672.87 — 57% of the maximum CPP payment.

Your OAS pension payment amount is determined by how long you have lived in Canada after the age of 18, but you need to have lived in Canada for at least 10 years to get any OAS payments (and 40 years to receive the maximum amount). Currently, the maximum amount is $613.53 per month, or $7,362.36 per year.

For example, if you've lived in Canada for 30 years after the age of 18, you'd receive 30/40 (i.e., 75%) of the OAS amount, or $460.15 per month, or $5,521.77 annually.

The good news is that the government will adjust the OAS amount according to the rise in cost of living measured by the consumer price index. So, you don't have to worry about inflation eating away your purchasing power of your OAS pension.

OAS and CPP payments aren't enough, but…

Many Canadians haven't lived in Canada for 40 years. Even if you have but haven't resided in Canada for the 10 consecutive years before your OAS pension was approved, you might still not get the full OAS payment.

To be conservative, let's use the average CPP pension amount and 75% of the OAS amount to get to a total CPP and OAS payment of $1,133.02 per month.

The cost of living and minimum wage varies across Canada. Currently, the minimum wage ranges from $11.32 to $15 per hour.

Assuming $14 an hour, that'd be $2,072 per month on a 37-hour workweek. The combined CPP and OAS pension payments make up less than 55% of this minimum wage amount. So, they won't be enough to fund a comfortable retirement, but that's normal.

According to Mark Machin, president and CEO of the Canada Pension Plan Investment Board (CPPIB), CPP payments pay up to roughly a quarter of an average employee's salary. The good news is that the federal and provincial governments plan to eventually raise that percentage to a third.

Ultimately, what this means is that you must have other sources of retirement income, including your savings in Tax-Free Savings Accounts (TFSAs) and Registered Retirement Savings Plans (RRSPs).

Supplement your retirement income with solid dividend stocks

You should save as much as you are comfortable with, but it's good to set a goal to put away, say, 15% of your after-tax income for your retirement investment fund. The earlier you save and invest, the less risk you can take to get the passive income you need for a comfortable retirement.

Right now, you can get income *and* growth from **TD Bank**, **Rogers Communications**, **Suncor**, **Brookfield Infrastructure Partners**, and **SmartCentres REIT**.

They are leaders in their corresponding industries and handily make up a diversified five-stock portfolio should you choose an equal weighting in each stock, as they're from the financial, telecom, energy, utility, and real estate sectors, respectively.

At writing, their dividend yields range from 3.7% to 5.9% with an average yield of 4.15%. Additionally, they're all expected to deliver long-term earnings-per-share growth of at least 5% annually.

Therefore, if you buy the stocks at fair valuations, you should get long-term returns of close to 9% annually, which would far exceed the average **TSX Index** total returns of 7%.

Particularly, I find TD Bank, Rogers, Suncor, and SmartCentres REIT to be decently valued today.

Investor takeaway

Normally, the OAS and CPP won't be enough to retire on. A large part of Canadians' retirement fundsis expected to come from their savings.

Contribute to your TFSA and RRSP regularly and make strategic long-term investments in dividend stocks like TD Bank, Rogers, Suncor, and SmartCentres REIT to boost your passive income immediately!

Then, when you retire, you can sit back and enjoy your nest egg along with OAS and CPP payments.

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